

THE
NATION'S INCOME

AN OUTLINE OF NATIONAL
AND LOCAL TAXATION


F. W. RAFFETY
AND
W. H. CARTWRIGHT SHARP



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THE BUDGET PROPOSALS OF 1909.

ON April 29th, Mr. Lloyd George introduced the Budget with the following proposals for new taxation :—

INCOME TAX (p. 43).

Ordinary Rate raised from 1s. to 1s. 2d.; but on earned incomes if total under £3,000, 9d. up to £2,000, 1s. between £2,000 and £3,000.

Super-tax on incomes over £5,000, 6d. in the £ on excess over £3,000.

New abatement on incomes under £500, £10 for every child under 16 years.

All exemptions and abatements in future to be restricted to residents in the United Kingdom.

(Estimated yield for this year £3,500,000).

DEATH DUTIES (p. 50).

Estate Duty on estates over £5,000, scale raised by percentages from 1% to 5% by graduated steps. Two estate duties instead of one to be paid where property subject to a life interest falls into possession after death of prospective beneficiary. Settlement Estate Duty increased from 1 to 2%.

(Estimated yield for this year £2,850,000).

Legacy and Succession Duties also increased, but fresh yield postponed.

EXCISE LICENCE DUTIES (pp. 41, 42).

Publicans' Licences—50% of annual value on fully licensed premises subject to a minimum; 33½% on beer-houses. Half or one-third the licence duty on ordinary *Hotels and Restaurants*; 3d. in the £ on sale price of liquor consumed in *Clubs*. Brewers and Distillers' licences on graduated scale; Wholesale dealers' licence duties increased for beer and spirits; Retailers' off-licence and on-licence and occasional licence duties increased.

(Estimated yield for this year £2,600,000).

MOTOR CARS (p. 41).

Motor cars from £2 2s. to £42 according to horsepower; motor cycles £1. Doctors' cars half rates; commercial vehicles exempt.

(Estimated yield for this year £260,000).

PETROL (p. 35).

3d. per gallon on petrol and motor-spirit. Rebate of $\frac{1}{4}$ where used for commercial vehicles, &c.; rebate of all duty when used for purposes other than motor traffic.

(Estimated yield for this year £340,000).

SPIRITS (p. 41).

Customs and Excise duties raised by 3s. 9d. per gallon.

(Estimated yield for this year £1,600,000).

TOBACCO (p. 36).

All duties raised by 8d. per lb.

(Estimated yield for this year £1,900,000).

STAMP DUTIES (p. 51).

Duty on transfer or sale of property raised from 10s. to 20s. %. Duty on transfer of shares increased and "option notes," &c., to be chargeable. "Contract notes" required from "outside brokers."

(Estimated yield for this year £650,000).

LAND TAXES (pp. 47 and 53).

New taxes (1) 20 % upon increment of value not due to owner's efforts; (2) Annual duty $\frac{1}{4}$ d. in the £ on capital value of undeveloped land, and ungotten minerals; agricultural land and parks to which the public admitted exempt; (3) 10% Reversion Duty on lessor's benefits at end of lease.

(Estimated yield for this year £500,000.)

SINKING FUND (p. 66.)

Reduced from £28,000,000 to £25,000,000 = £3,000,000.

Of the new taxation, the following amounts are specially allocated to new purposes:—*National Development Fund*, £200,000; *Labour Exchanges*, £100,000; *Main Road Improvement*, £600,000.

Total Estimated Revenue for the year	...	£165,590,000
" " Expenditure ...	... ..	165,102,000
Surplus	... ..	<u>488,000</u>

PREFACE.

THIS book is obviously not an exhaustive treatise ; it touches too many important subjects to go into the details of any one of them. It aims at being a practical book for the citizen and the student of public affairs. Its object is to put before him such first knowledge of the principles of taxation in this country as may enable him to understand the Nation's Accounts and to judge political issues from that understanding.

It may also be of use to those who are seeking some such guide, either in connection with private studies or for the requirements of institutions and higher educational centres. If it is not too much to hope that some day the elements of public finance may be thought a fit subject for schools, this book may prove, with the comments of the teacher, a means of conveying that knowledge without technicality and wearisome detail. That it may lead to a little more thought on these subjects and to the more generous reading of some of the great books to which reference is made is the chief desire of the present writers.

CHAPTER I.

INTRODUCTION.

THIS little book aims at presenting a short account of the different sources of national revenue, and the effect upon the nation and upon the citizen of the various methods of taxation now in force. Knowledge upon these points is of great importance ; for we are all taxpayers, directly or indirectly, and by our votes or influence have to take our part in the choice of those who manage the affairs of the nation. If that choice is to be an intelligent one, some knowledge of general principles and of our present system of taxation is imperative.

It is characteristic of the British people to take everything as "a matter of course. Living in a "civilised country," we expect good government, and regard the provision of many artificial comforts as natural and almost inevitable. Only in times of panic or international jealousy, do the great bulk of the people become really concerned about the adequacy of our defences. Only on some derangement of the telephone service or the water supply, are we inquisitive as to the means by which these particular services are rendered. Certain things are demanded, as of right, from our national government, certain others from our local governing bodies ; and it is only when these duties are neglected, and accustomed comforts are lacking, that we grow querulous and demand inquiry and investigation. Then, for some months, we tolerate details and discuss the findings of Commissions ;

and, about the time of the Annual Budget, we all feel ourselves competent to criticise the Chancellor of the Exchequer. But at other times, when our equanimity has not been disturbed, we leave the complex system of national taxation to the experts, and devote our energies to paying as little as we can of the taxes which the government of the day may see fit to impose. Even over local rates, while we groan and grumble at their weight, we exercise no constant and vigilant watch. As individuals we may be "diligent in business," but we are too ready to leave the cares of the community to others.

It is evident to any one that a certain amount of revenue is needed for national purposes, and that this amount tends to increase; but more interest is generally displayed in "shifting the burden," than in diminishing the total expenditure, or in getting better value for our money. When we do attempt to fasten responsibility for faulty government upon someone, we often place it upon the wrong shoulders. Parliament is blamed for bad trade or bad roads; the London County Council is charged with the shortcomings of the central government or of the poor-law authority. The complexity of our local government system may be some excuse for ignorance displayed upon many local matters; but national complacency is the only explanation that can be found for the indifference generally exhibited towards public affairs which vitally concern both our moral and material well-being.

In a complex and highly organised community, the objects and duties of a government are many and diverse. Our government must not only defend our territory from invasion, and maintain peace, order and security in the land, but must also afford facilities for trade and agri-

culture, encourage art and literature, endow education, care for those whom youth, age, poverty, sickness or other infirmity has rendered incapable of looking after themselves, and in a hundred other ways ensure the welfare of the nation. Some there are who contend that state aid conferred upon the weaker members of the community impoverishes the moral fibre of the nation, and diminishes thrift and self-respect. But, if legislation tends more in this direction, we may well bear in mind that the stress of modern civilisation is hardest upon those who have little or no margin of income, and are face to face with poverty throughout their lives. Their claims upon the attention of government have become more difficult to resist, as public opinion has become increasingly aroused to the duty of the community towards those whose needs make them most dependent upon good government. As Lord Acton wrote, "The men who pay wages ought not to be the political masters of those who earn them, for laws should be adapted to those who have the heaviest stake in the country, for whom misgovernment means, not mortified pride or stinted luxury, but want and pain and degradation, a risk to their own lives and to their children's souls." Nearly everyone is agreed that the general activities and even these paternal functions of government are in the abstract necessary and desirable. An even stronger navy, a more efficient army, more generous aid for the destitute, readier means of communication, and more assistance to trade are aspirations which are considered worthy of a government. In recent times we have united in appreciation of old age pensions and of the provision of a fund for international hospitality. There is, however, one important consideration that affects every attempt in any of these directions—the

question of cost. It is impossible to achieve these ends without a large expenditure, and this can only be defrayed out of a revenue, the bulk of which must be raised by taxation.

However fond of the benefits of good government, no one is eager to pay the necessary taxes. Hence many ministries lose popularity in supplying the very demands of their supporters. An astute administrator is well aware that, however clamorously a policy may be demanded, in the end the raising of the money required will not be popular. "To tax and to please" is not given to any government. Nowhere is there such an absence of logic as in the attitude often shown towards national policy. It will be found that the same people call for a stronger navy, social reforms and a reduction of taxes at the same time, and feel aggrieved because all their demands are not simultaneously satisfied. By economical management it may occasionally be possible to effect saving in one direction or another, and, in this way, to liberate money for reforms without the pressure of heavier or new taxation ; but, generally speaking, the policy of any government is limited by a comparison of the advantages of any suggested scheme with the extra financial burden it will entail. "A reduction of Income Tax" struggles against "Social Reform," and "Down with the Rates" keeps back many a needed local improvement.

As taxation, therefore, lies at the root of all policy, every citizen should make some study of its principles and working. Ultimate responsibility for action or inaction, at home or abroad, rests with the taxpayer ; when knowledge of this subject is acquired, the citizen is better able to judge the effects of any suggested tax, and also to determine whether proposals for larger armaments or

for social reforms, desirable in themselves, are worth their cost to the public.

Supreme power in this country has long been vested in Parliament, and Parliament directs to be done such things as are of national and imperial importance, and levies taxes on the people at large to raise the money required for these purposes. Certain powers, again, over purely local concerns have been delegated by Parliament to different local bodies throughout the land, or have been acquired otherwise by them. These local bodies are, however, subject to the partial control of the central government, although it is worthy of note that our local authorities enjoy an independence from national interference unknown and not easily understood in foreign countries. For the purposes of local government also a large annual revenue is needed. The greater part of it is raised by rates levied by the local authority on the inhabitants of the particular district. Thus, generally speaking, local expenditure is met by rates, national expenditure by taxes ; but, by Exchequer Contributions, national funds are employed to some extent in supplement of local funds. The justice of such contributions is apparent on recollecting how many matters of a partly national character have been assigned to the local authorities. Education, in particular, is of national rather than of local concern, so that it would be unjust if the whole cost of our schools were thrown upon local funds.

In the hope of rendering the system of national taxation more intelligible, we have, in the following pages, considered the manner in which Parliament sanctions the levying of taxes. We proceed to discuss the general rules and principles which should be observed in imposing taxes,

describe those now in force, and enumerate our non-tax sources of revenue. We deal briefly with the causes and methods of creating national indebtedness, since, by raising loans when large expenses have to be immediately met, the sudden imposition of abnormal taxation is avoided. We then glance at the control over national expenditure, and touch upon the existing scheme of local government taxation. Our survey is completed with an attempt to state impartially the main arguments for and against "protective" taxes—a system not at present practised in this country, but an object of constant and vigorous contention and debate.

CHAPTER II.

THE NATION'S REVENUE.

History and Origin.—In former times the nation's revenue and the King's revenue were identical. Even now His Majesty's "most dutiful and loyal subjects, the Commons of the United Kingdom of Great Britain and Ireland in Parliament assembled," grant supplies nominally to the King, and the King returns thanks for the grants. So, too, we still talk of "the King's Ministers," "the King's Taxes," and "the King's Speech." This revenue was at first derived from the exercise of the sovereign's feudal rights, from the proceeds of certain duties which he was by custom entitled to exact, and from the vast estates which passed with the Crown. Until the accession of the Tudors, the King was generally able to meet the whole cost of governing the country from these sources, although from time to time special expenses arose which

called for extra supplies. But by this date the old revenue had become insufficient to meet the normal expenses of government, or the demands of the sovereign, and there was a constant need for further funds. To obtain the money required, Henry VII. availed himself of the wiles of convenient ministers. "Morton's fork" extorted gifts from the extravagant and the economical alike, Morton and Fox playing the part of forerunners of the modern Income Tax Commissioners. Confiscations further enriched the royal purse at the expense of disloyal subjects. Henry VIII. met deficiencies of revenue by annexing the possessions of the monasteries, and by obtaining grants from a subservient Parliament. Elizabeth, although parsimonious, was compelled to raise money by selling part of the Crown lands, and by frequent grants of monopolies. Confiscations were also practised by her, as they had been by Mary, and by the "guardians" of Edward VI. James I. imposed customs duties at his will, and was upheld by the Courts, in the celebrated "Bate's Case," in levying an import duty on currants of 5s. 6d. per cwt. Charles I. extended this system to a point that could no longer be brooked by the nation; and to the exaction of ship-money, the Civil War is partly to be attributed. After prolonged struggles, the Petition of Right, 1628, declared, and the Bill of Rights, 1689, finally determined, the principle that no tax or duty could be levied unless and until it was granted and authorised by Parliament.

Parliamentary Control.—It need scarcely be mentioned that long before, and throughout all these reigns, taxes had also been imposed upon the people at large whenever Parliament could be induced to grant them. When Parliament was asked to grant supplies, the sovereign

was usually compelled to promise the redress of certain grievances. But it often happened that, when taxation had been authorised to provide money for some particular purpose, the proceeds were devoted to other ends, while the grievances complained of were not effectually redressed.

Redress of Grievances.—From these facts two important principles have emerged. Money can only be expended in the manner and for the purposes authorised by Parliament; redress of grievances must precede supply. The former principle has been recognised ever since 1665, in which year Parliament granted Charles II. a million and a quarter sterling, expressly stating that this grant was only to be used for carrying on the war with Holland. Earlier instances of appropriation of supplies are found, the first in 1353; but since 1665 all grants have been allocated to particular purposes. As the monarch could no longer levy exactions at his will, nor apply the money voted by the nation for his own purposes, Charles II. and James II. did not scruple to become, in Macaulay's phrase, "the salaried Viceroys of France."

To the principle that redress of grievance precedes supply, is due the usage which prevails even now in the House of Commons that, when a motion is proposed that the Speaker leave the chair so that the question of supplies may be considered in committee, any member is entitled on certain days to bring forward a grievance before supplies are considered. He may, for example, when important financial proposals are about to be introduced, complain of the need of repair to barracks in the north of Scotland, or of the defects of the Kitchen Committee of the House of Commons. The remedy is probably, at this date, an evil greater than the disease exterminated.

Annual Supplies.—Since Parliament could always refuse supplies if its wishes were ignored, its power and authority, when in session, could not safely be disregarded. It was for this reason that the sovereign generally dispensed with its assistance whenever the state of finances permitted ; for then he could rule the country as he wished, and had not to consider the desires of the three estates—the lords spiritual, the lords temporal and the commons. To check this limitation of its power, Parliament has, since the reign of William III., taken care to grant supplies which will be sufficient only for the current year. Without parliamentary authority, neither the King nor the Ministry can legally impose fresh taxes, nor can they continue those granted for a limited period. This necessity for constant supplies has mainly led to the system of annual parliaments—a system so essential to popular control, that it may be regarded as the chief security of constitutional government. Even now a considerable part of the revenue is granted each year for a year and, if Parliament were not summoned annually, sufficient funds to carry on the government of the country would not be forthcoming.

The Civil List.—It has become customary for the Sovereign on accession to relinquish his claim to the Crown lands and other sources of revenue.* In return Parliament defrays the expenses of government, and grants a Civil List or annuity for the King and Queen and the Royal household, while suitable provision is also made for

* The Duchy of Lancaster, which produces some £60,000 net a year, is, however, still the property of the Crown. The Duchy of Cornwall, which produces some £80,000 a year, is likewise the private property of the Sovereign, until the birth of an Heir Apparent, who is then entitled to its possession.

such members of the Royal Family as maintain separate establishments.

Sources of Revenue.—Parliament, therefore, now raises the whole of the national revenue. A small part is derived from the Crown lands, from interest on loans, and from dividends on shares in the Suez Canal, while a larger amount proceeds from the profits of the Post Office, and various sums from other sources. The rest of the revenue—about five-sixths of the whole—is raised by taxes.

Parliament is composed of three parts—the Crown, the House of Lords, and the House of Commons. Every bill before it passes into law must receive the assent of each. With regard to *Money Bills*—all those connected with taxation or supply—special principles are observed. In the preamble no mention is made of the House of Lords, but the grants are expressly voted by the Commons only. The principle was recognised as early as 1407, but had to be formally reasserted by the Commons in 1678, and again in 1860, when it was resolved that in their House alone could such measures originate and that the Lords had no power to alter them.

For some time, when the Commons wished to pass a measure distasteful to the other House, the practice of *Tacking* the Bill to a Bill of Supply was adopted. This was, in 1702, declared by the Lords to be dangerous to the constitution, and, although sometimes threatened, has been discontinued.

It is therefore accepted, after long and strenuous conflict, that all money bills must originate in the House of Commons. As a further safeguard, it is provided that only on the proposition of a minister of the Crown, can the raising of revenue, or any expenditure of it, be sanctioned. No private member can

propose a grant for any purpose, or even the increase of a grant already suggested. For example, in 1909 a Bill introduced by a private member to the effect that, when a judge or magistrate dies or retires during the hearing of a case instituted by the Crown, the defendant's costs should be paid by the Treasury, was ruled out of order by the Speaker. Private members may only move for a reduction of the amount proposed, or bring forward a resolution to the effect that public money might advantageously be expended for some specified purpose. In this way rash spending of the public funds is carefully guarded against.

The House of Lords can accept or reject a money bill as a whole, but cannot alter or modify it in any way.* Since the Bill for the repeal of the paper duties was rejected by the House of Lords in 1860, it has become the established practice for the Commons to embody the ordinary financial proposals of the year in a single Finance Bill. This bill is not sent up to the Lords until the end of the session, but the several taxes are charged at the rates fixed by the resolutions of the Commons, as soon as these are passed. If the Lords rejected the Finance Bill, not only would a large part of the money required be lacking, but the proceeds of many of the taxes already paid would have to be refunded, and interminable confusion would prevail. It is therefore unlikely that such a bill will ever be rejected.

The result of these various principles is that, for all

* "The Commons have always contended that the Lords cannot originate or alter a Money Bill, but it has never been contended that the Lords may not reject a Money Bill, though there are few instances of their having done so." Letter of Viscount Palmerston to Queen Victoria, 22nd May, 1860.—*Letters of Queen Victoria* (1837-1861), vol. iii. p. 401.

practical purposes, the Commons are the sole legislative body in matters of taxation. They hold *the power of the purse* and in this way the authority of the Commons has become in many respects greater than that of the other two parts of which Parliament is composed. *The King's part* in legislation which has passed through the Lords and the Commons is merely to assent to or to veto bills, and this veto has not been exercised since 1707. It must not, however, be forgotten that the Sovereign has considerable influence upon the course of legislation from behind the scenes, as can be clearly observed from a perusal of Queen Victoria's letters.* The House of Lords has always been the "dignified" part of the Legislature, and never the "efficient" House where the real business of the nation is done.† This fact is only emphasised by the limitation of its power in financial matters.

Parliamentary Procedure.—The year, for purposes of national finance, begins on April 1st and ends on March 31st. In April the Chancellor of the Exchequer generally brings before the House what are known as the *Budget* proposals. He states the revenue and the expenditure of the preceding financial year, and whether there is a surplus or a deficit. In the former case the Sinking Fund is augmented; in the latter it is depleted. The Chancellor then estimates the expenditure for the ensuing year, and states the probable revenue which

* *e.g.* "With respect both to measures and appointments, your Majesty should place the fullest confidence in those to whom you entrust the management of affairs, exercising at the same time, and fully expressing, your own judgment upon both. Your Majesty will do well to be from the beginning very vigilant that all measures and all appointments are stated to your Majesty in the first instance, and your Majesty's pleasure taken thereon previously to any instrument being drawn out for carrying them into effect, and submitted to your Majesty's signature."—Letter of Viscount Melbourne. Vol. I. p. 156.

† See Bagehot: *English Constitution*.

would accrue if the existing taxes were retained. He may proceed to suggest the remission of certain taxation, in whole or in part, the imposition of new taxes, or the increase of any of those already in existence. He will comment on the commercial position of the country, the advisability of a further reduction or increase of the National Debt, descant on some profitable yields from Customs or Excise duties, and will furnish to the House as full and lucid an account as he can of the reasons in support of his proposals. Criticism of these plans is generally started by the last Chancellor of the Exchequer who held office when the other party was in power. Further discussion then succeeds upon the Budget proposals.

The House, sitting as a *Committee of Supply*, considers the estimates of expenditure and, after or without modification, approves of them item by item, the function of this Committee being to determine how much revenue is to be raised and for what purposes it may be used. Then, sitting as a *Committee of Ways and Means*, the House determines the sources and means of raising this amount of revenue, and authorises grants to meet the needs approved by it as a Committee of Supply. The separate grants are at the end of the session embodied in a single *Appropriation Bill* which is sent up to the Lords for their approval, and afterwards it receives the Royal assent, signified either in person or by Commission.*

* The headings of Finance and of Appropriation Acts clearly mark the respective purposes of these Acts. A Finance Act is entitled "An Act to grant certain duties of Customs and Inland Revenue, to alter other duties, and to amend the Law relating to Customs and Inland Revenue and the National Debt, and to make other provisions for the financial arrangements of the year."

An Appropriation Act is entitled "An Act to apply certain sums out of the Consolidated Fund to the service of the year ending and to appropriate the Supplies granted in this Session of Parliament."

It is impossible to foretell with perfect accuracy the expenditure which will be required in the year for every specified purpose. In February or March, it will generally be found that too little has been provided for certain services and that unexpected contingencies have necessitated extra expenditure in some directions. In such cases *Supplementary Estimates* are passed to furnish the requisite money which is generally raised by the issue of Exchequer or Treasury Bills.

Consolidated Fund Services.—It may here be mentioned that about one-fourth of the total expenditure, consisting of the Civil List, judicial and other salaries, the upkeep of the Law Courts, the interest, cost of management and part repayment of the National Debt, and other fixed expenses, is not specially authorised afresh each year, but is paid under the provisions of permanent statutes.*

Control over Expenditure.—When the revenue has been collected, it is paid into the Exchequer Account of the Bank of England. The control of Parliament over expenditure forms the subject-matter of a subsequent chapter. Suffice it here to say that not a penny of the revenue can be spent without the authority and knowledge of Parliament, and that, thanks to the system of *audit* in force, Parliament possesses a complete check over national expenditure. The fact that three quarters of the total annual disbursements can only be legally made when approved in this fashion is yet a further safeguard for the summoning of annual parliaments.

Sources of Income.—Let us now see from what sources the Nation's Income is drawn. This can best be gathered from a summary of the amounts obtained from the various taxes, and from sources other than taxes, in some ordinary

* See *post.*, p 71.

year. For this purpose the year ended 31st March, 1908, will suffice.

THE NATION'S INCOME FOR NATIONAL PURPOSES.

Payments into Exchequer for year ended March 31st, 1908.

Customs	£32,490,000
Excise	35,720,000
Income Tax	32,380,000
Death Duties	19,070,000
Stamp Duties	7,970,000
Inhabited House Duty	1,960,000
Land Tax	730,000
Total Tax Revenue	130,320,000

Government Trading Departments—

Post Office	£17,880,000	
Telegraph Service }	4,420,000	} .. 23,020,800
Telephone Service }		
Mint	720,800	
Suez Canal Shares	1,127,800	} .. 1,189,400
Sundry Loans	61,600	
Fee and Patent Stamps		1,024,000
Crown Lands		520,000
Miscellaneous		463,500
Total Non-Tax Revenue	£26,217,700	
Total Revenue from all Sources	£156,537,700	

CHAPTER III.

THE PRINCIPLES OF TAXATION.

THE Nation's Revenue is made up of money derived from taxes, and from sources of income other than taxes. A tax may be defined as a contribution made by the citizens of a state towards the expenses of government. The

theory of our constitution is that the people in this way make voluntary contributions to aid the King to manage the affairs of the country. If the suggested definition of a tax be accepted it will be seen that some of the sources of revenue which are usually described as non-tax are not properly so called. The cost of postage upon letters works out at less than a penny a letter ; so every time a person uses a penny postage stamp he is contributing part of a penny towards the expenses of government. Still more are fee stamps, and—although they confer special advantages—patent stamps in the nature of taxes ; but, in accordance with general usage, they are included in this book among non-tax sources of revenue.

Direct and Indirect Taxes.—Taxes are usually divided into two classes—direct and indirect. A direct tax is one paid by the persons who bear the burden of the tax, while the burden of an indirect tax is not eventually borne by those who in the first place pay it. For example, if a man has an income of £1,000, and has to pay income tax on that sum, he cannot recoup himself at the expense of other people. This is a direct tax, for the same man pays the money and bears the burden, and is poorer by the amount of the tax he pays.

Upon the other hand, let us suppose that X, a tobacco merchant, purchases from abroad a consignment of cigars. X will pay a heavy duty upon the cigars at the Custom House, when they enter this country. But X, if a good salesman, does not eventually bear the burden of the tax he has paid. He adds the amount of the duty to the price of the cigars and to the cost of carriage and other expenses, and then sells them so as to realise a profit over and above the total cost of all these various items. It is the purchasers from X or sub-purchasers

from them—in other words, the consumers—who, by paying a high price for the cigars, eventually bear the burden of the duty. This clearly is an indirect tax.

It is easy to take certain cases and to show that in one set of circumstances a certain tax is direct, while in other circumstances some other tax is indirect, but there are very many taxes of which the incidence cannot be generally traced or foretold. Even those taxes and duties which are at first sight clearly of a direct or indirect nature, change their character as conditions vary, and the exact effects of any tax in all possible cases can never be determined with certainty. For example, a high income tax on earned salaries might compel some employers to increase their amount. In such a case those paying these salaries would bear at least a part of the burden of the tax. On the other hand, when a man imports cigars for his own use the tax is clearly direct. But, though the exact effect of any tax is uncertain, in most cases duties on commodities are indirect taxes. So, too, are licences for the sale of tobacco, beer and spirits, if the licence-holder is successful in his business. Still, even then, it must be remembered that he may bear some portion of the burden of the excise, customs, or licence duty, since the higher prices he must charge may diminish his sales. It is noticeable that, whenever an increase of the amount of duty on any article is suggested, the traders in that commodity are loud in their complaints of the hardship thus inflicted on them by a tax which is, on the whole, indirect. The common examples of direct taxation are income tax, death duties, inhabited house duty, and dog, servant, gun, game, motor-car, and carriage licences.

Maxims of Taxation.—The most celebrated of all writers upon political economy, of which taxation is but

one branch, is Adam Smith, who has indeed been justly called "The Father of Political Economy."

It was he who first clearly showed that money is not wealth, but only a convenient intermediary for the exchange and circulation of wealth. Adam Smith laid down certain rules to be observed in taxation which have been regarded as authoritative by all writers and students of the subject ever since, although slight modifications of his conclusions and arguments have been introduced. The four rules are in substance as follows :—

1. Taxes should impose an equal burden on all citizens.
2. Taxes should be certain in quantity and in the time and manner of payment.
3. Taxes should cause the taxpayer the least possible inconvenience.
4. Taxes should be so contrived that the greatest possible part of the money paid by the taxpayer should go into the public Treasury.

Let us briefly consider the meaning and the effect of these rules.

1. *Taxes should impose an equal burden on all citizens.*

This rule does not imply that every citizen ought to pay exactly the same amount to the Treasury. In 1907-8, about £130,000,000 was produced by taxes, and the population of Great Britain was probably about 44,500,000. Thus taxation for national purposes worked out at about £3 per head of the population. If everyone paid the same sum in taxes, a workman with a wife and three children, earning £52 a year, would have to pay £15 out of this sum in taxes. Obviously the burden would be stupendous, and this family would be brought to the verge of starvation. Taxation of such crushing weight would be almost as bad as that imposed upon the common

people in France just before the Revolution. A family of the same size with an income of £10,000 a year would scarcely be affected at all by the payment of £15 per annum in taxes. The burden would not be equal but ridiculously unfair.

Nor again does this rule mean that all citizens should contribute in exact proportion to their income.* Any deduction from the means of a family which has barely enough to provide the necessities of life would be a greater burden than taxation to the extent of half their income would be to a very rich family. Incomes only just sufficient to provide necessities ought not to be taxed at all. This fact is recognised in the income tax now in force, but is disregarded in the customs imposed on tea, sugar, currants, cocoa, coffee, and other food-stuffs essential to all classes. The real principle pointed out in this rule is that every citizen should make an equal sacrifice—or, in the words of John Stuart Mill, "It means apportioning the contribution of each person towards the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his."†

This is the ideal standard. This should be the principal aim of all taxation, although it is unlikely that perfection will ever be reached.

"Whoever hopes a faultless tax to see,
Hopes what ne'er was, is not, and ne'er shall be."‡

At the present time there is no doubt that the rich

* Payment in proportion to income does seem to have been the ideal of Adam Smith; but all subsequent writers of note prefer the interpretation of the rule propounded in the following paragraph.

† *Principles of Political Economy*. Book v., chap. ii.

‡ McCulloch's parody on two lines of Pope.

are called upon to make too small, and the poor too great a sacrifice; and to take money from the poor is bad for the nation in every way. As Professor Marshall has pointed out, "There is some misuse of wealth in all ranks of society: but, speaking generally, we may say that every increase in the income of the working classes adds to the fulness and nobility of human life; because it is used chiefly in the supply of real wants." *

Anyone who doubts that a diminution of taxation upon the poor is advisable might with advantage study Mr. Chiozza's Money's chapter on "The Waste of Capital" in his book "Riches and Poverty." The conclusion he arrives at is that, as things are, an enormous amount of wealth is wasted every year upon current expenditure of an ignoble character, even while every city and every industry need the application of more capital. If the working classes spent their incomes in the most economical way possible, they would still be unable to command the means of a noble and truly happy life.

2. *Taxes should be certain in quantity and in the time and manner of payment.*

The amount of a tax must be certain and easily ascertained. The most important lesson to be learnt from this rule is that duties must be levied in accordance with quantity, which can be exactly determined, and not in accordance with quality, which is rather a matter of opinion, and, in most cases, cannot be ascertained with certainty.† For example, if an *ad valorem* duty of 100% were charged on tobacco, *i.e.*, if importers of tobacco

* *Principles of Economics*, p. 181.

† These remarks apply to duties on commodities, and not, of course, to such duties as stamp or death duties or inhabited house duty.

were made to pay a sum equal to its value in duty, great uncertainty would inevitably prevail. Let us suppose that A has ordered a quantity of cigars from abroad. A could easily arrange with those from whom he has purchased them to understate the amount he is paying, and so the statement of the price paid could not be taken as the basis of taxation. It would, therefore, be left to the Custom House officials to value the cigars. This might lead to bribery and corruption. Even if all the officials were incorruptible and were also skilled assessors of the value of every article on which duties are charged, still the idea of value would vary with different officials, just as the most skilful assessors are now found to differ greatly among themselves in their valuations of public-houses for compensation or of buildings of any kind for rating purposes. Injustice would therefore ensue, not to mention great delay at the Custom House and much troublesome litigation. It is also essential that the time and manner of payment should be definitely fixed; for otherwise the greatest confusion and some injustice are inevitable. As Adam Smith declared, "A very considerable degree of inequality is not near so great an evil as a very small degree of uncertainty."

3. *Taxes should cause the taxpayer the least possible inconvenience.*

Although few people associate the words "tax" and "convenience" in their minds, this proposition is almost self-evident, and the rule is obviously judicious, even apart from the fact that government exists for the good of the people. A tax on luxuries paid directly by the consumer would from this point of view be ideal. Such tax would be paid at a time when the taxpayer has money to spend on non-necessaries, and therefore, presumably,

at a time convenient for him to spare money for taxation. J. S. Mill and other writers approve of all taxes on luxuries because the consumer, who eventually bears the burden of the tax, need only buy luxuries when he chooses and when he has money to spare. But one important fact must not be overlooked—the convenience of the consumer includes cheapness, and the convenience of others, besides the consumer, must be considered. In regard to duties on all commodities, the importer who advances the amount of the duty in the first place has to pay at a time when he particularly needs all the money he can get—when he is laying in a stock of goods. This inconvenience naturally leads to an increase of the selling price of the goods, and it will be found that goods on which a duty is charged are generally increased in price by considerably more than the amount of the duty.

Not only must the time of payment be convenient, but also the method of collection. Formerly there was a tax on hearths, and revenue officials had to enter private houses to see how many hearths they contained. This was naturally greatly resented as an unnecessary outrage on the feelings of the taxpayers. The hearth tax was succeeded by the window tax. To collect this officials need only walk round the outside of a house. The window tax was, however, almost as unpopular. The common sentiment of the time is expressed in a quaint document entitled "A Plan for the Immediate Annihilation of Taxes," by "A Capitalist": "Of the window tax it may be said that it deprives us of the full enjoyment of the light of heaven, is greatly injurious to our national taste in building, and renders our houses unwholesome." One effect of the window tax can still be seen in the dummy windows to be found in many old-fashioned houses.

Nor again ought the taxpayer to be subjected to physical trouble and waste of time. A serious objection to the present stamp duties on deeds and other documents is that the taxpayers must go to a special government office to have their deeds stamped, and must also subject their private affairs to the scrutiny of the officials.

4. *Taxes should be so contrived that the greatest possible part of the money paid by the people should go into the public Treasury.*

One obvious requirement of this rule is that the cost of collecting the tax should be comparatively small. If a tax be suggested which will cost almost as much to collect as it will produce, that tax is, from the point of view of profitable taxation, bad. The taxpayers are burdened; the State is not benefited.

In this respect taxes on commodities are not so good as direct taxes. The collection of indirect taxation costs about five per cent. of the sum it produces, while direct taxes cost a much smaller percentage to collect. It may also be mentioned that the amount of duties obtained at some of our ports is insufficient to pay the salaries of the Custom House officials stationed there.

Another result of this rule is that, merely from the point of view of revenue, protective taxes are bad. A large part of the burden they throw on the consumer by increasing the price of the goods goes into the pockets of home producers and only a part enters the public Treasury.

Direct v. Indirect Taxation.—The general principles which should be observed in taxation have now been mentioned. In dealing with certain specific taxes in subsequent chapters, attention will at times be directed to the faults or virtues of some of them as judged by

these principles. We must now glance at the general question of direct and indirect taxation.* Direct taxation suffers from the unpopularity it provokes against the government which imposes it. But, when anyone buys an ounce of tobacco at $4\frac{1}{2}$ d., it seldom strikes him that he is paying $1\frac{1}{2}$ d. for tobacco and 3d. for tax. If he could buy his tobacco at $1\frac{1}{2}$ d. per ounce, and were asked at the end of the year to pay one-half of the amount of tax which he now actually pays, by buying at $4\frac{1}{2}$ d. an ounce, he would clearly see that he was being taxed, and would write to the papers about "the iniquitous burden of taxation." Still, direct taxes have the corresponding advantage that everyone knows exactly how much he is paying, and can calculate the cost of "a high-spirited foreign policy," or of experiments at home. Human nature has not changed in any country since the time when Senator Mason, of Virginia, said to Cobden, "Our people are not yet philosophical enough to know that it is safer to feel the tax when you pay it, than to pay it without feeling it."†

Another advantage of direct taxation is that it is usually cheaper to collect; but, upon the other hand, there must be a fixed date for payment, and this will necessarily be inconvenient to some part of the people. Income tax,

* Throughout the rest of the book no mention of export duties is made. Although export duties on wool and on leather were among the earliest taxes granted to our monarchs by Parliament, no such duties are now in force in this country. The only recent experiment of this kind is the export duty of 1/- a ton on coal, imposed in 1901, to meet part of the cost of the Boer War, and repealed in 1906. The obvious tendency of an export duty is to handicap British producers in competing in foreign markets. In the same way no mention will be made of transit duties, since they are now entirely abandoned. Most of the criticisms of import duties are equally applicable to export and transit duties.

† Morley: *Life of Cobden*, chap. xxx.

our most productive source of direct taxation, certainly suffers from this disadvantage, as also from the fact that some people are able to escape paying their proper contribution by making incorrect statements as to the amount of their profits. It is also the tax which is most vulnerable to party and outside pressure.

The merit of indirect taxes varies considerably. A tax on necessities is as bad a tax as could be devised. A heavy duty on some article which all require in about the same quantity exacts too much from the poorest, especially the man with the large family, and hardly affects the wealthy at all. The necessity, not the ability of the taxpayer to bear it, determines the amount of tax each man pays.

Indirect taxes generally lack certainty both in amount and in incidence, the increase of prices varying widely in different localities, while in nearly all the cost of the article taxed is increased by more than the duty levied. If taxation were wholly indirect there would be a less vigilant watch over public expenditure. Upon the other hand, if wholly direct, there might be a tendency to stint necessary expenditure because of the unpopularity of paying direct taxes, and a pinchbeck policy might be pursued.

But, whatever the moral advantages of direct taxation may be, no Chancellor of the Exchequer can dispense with indirect taxation, although in this country, alone of all great nations, more than half the total receipts from taxation is from direct taxes. The practical advantage of indirect taxation was admitted by Mr. Gladstone, when he referred to direct and indirect taxation as two attractive sisters, each with an ample fortune, and differing only as sisters may differ, as when one is of a lighter and

another of a darker complexion, or when there is some agreeable variety of manner. He could not, therefore, conceive any reason why there should be unfriendly rivalry between the admirers of the two damsels, and frankly owned that, as Chancellor of the Exchequer, he had always thought it not only allowable, but even an act of duty, to pay his addresses to them both.

In a debate in Parliament on March 10th, 1909, upon a motion introduced with the object of advocating an increase of direct taxation, some interesting arguments were put forward. One member declared that about 38,000,000 of our population made less than £160 a year, and that three-fourths of the indirect taxation fell upon the working classes. This, it was calculated, was equivalent to a tax of 1s. 5d. in the £ on incomes which are admittedly too small to be directly taxed.

Non-Tax Sources.—Before proceeding to mention in detail the principal taxes, a brief reference may be made to one other source of revenue which is classed as non-tax. This may in future be of much greater importance in our country, as it is to-day in many other lands, viz.: the profits made by semi-trading departments of government, such as the Post Office, which either compete for public favour with private rivals or enjoy a monopoly. The Post Office in this country has not only proved to be capable of delivering letters and parcels cheaply and quickly, but has shown a considerable annual profit from these undertakings. In Prussia a net profit of £33,500,000 a year is derived from its *national railways*. These profits go to relieve taxation. Of course it is a much easier thing to inaugurate a system of State railways, and to conduct them at a profit, than to purchase at high prices system already in private hands and endeavour to make

that pay satisfactorily. Mill, Jevons and other political economists of note have declared against the purchase of our railways by the state, as imposing too great a burden of debt upon the nation. Still, if railways were nationalised, many contend that, not only would better facilities be afforded to traders and their charges for the carriage of goods be lowered and equalised, but, under a single management, many large economies could be effected, and a substantial profit might well result to the nation even after paying interest on the purchase price. Nationalisation of canals and afforestation* are other schemes of a similar nature at present advocated by many authoritative writers and speakers. This much at least may be safely said, that other channels beyond those now existing in Great Britain may in the future be found from which revenue can be drawn in the shape of profits on trading. Opinions, at present, differ very widely in attempting to indicate in what direction.

CHAPTER IV.

THE NATION'S TAXES.

WE must now glance at the most important sources of our revenue from taxation one by one, and consider their merits and demerits, their productiveness, and the effect of some of them upon the well-being of the nation.

(a.) CUSTOMS.

Present System.—Those taxes which are levied at our ports on goods coming from abroad are called Customs or Customs Duties ; those levied on goods produced in

* See p. 60.

this country are known as Excise Duties. Our present taxes on commodities are framed in accordance with what are generally known as *Free Trade* principles ; *i.e.*, if the article taxed is not produced at all in Great Britain, a customs duty alone is imposed ; if produced both here and abroad, then not only a customs, but also an excise duty of a corresponding amount, is levied. For example, if imported solid glucose pays a customs duty of 2s. 9d. per cwt., then an excise duty of the same amount is imposed on British solid glucose. Revenue is raised from both sources, and neither British nor foreign glucose-making is encouraged or discouraged, our market being left free to competition, and prices being kept at a low level. It is claimed that, in this way, the greatest possible part of the proceeds of the burden borne by the consumer of the glucose goes into the Exchequer. If there were no excise duty corresponding to the customs duty, the British glucose manufacturer could raise the price of his article by 2s. 6d. per cwt., and would still possess an advantage of 3d. per cwt. in competition with foreign producers ; in other words, the home manufacturer would be protected from foreign competition, and would receive 2s. 6d. per cwt., by way of tax, from every member of the public who bought a cwt. of his glucose. The Exchequer would receive 2s. 9d. per cwt. on the glucose still imported, but the amount of this—owing to the remaining 3d. per cwt. disadvantage at which foreign producers would compete—must necessarily decline.

Collection of Duties.—All goods entering this country must be landed at some port where Custom House officials are stationed and are subjected to rigorous inspection. To prevent goods, subject to tax, being landed at other than the authorised ports, and thus escaping the payment of

duty, a system of coast-guard stations has been established round our coasts, so efficient that very little smuggling now takes place. As everyone who has travelled abroad will remember, all passengers, on entering this country, must submit their luggage to inspection, and must declare what dutiable articles they have with them. If a Custom House officer has good reason to suspect that dutiable goods are concealed on the person, he may even compel a personal search to be made. Duty must be paid on any articles subject to customs before they can be removed from the Custom House or bonded warehouse; and, if any attempt to elude payment is discovered, the dutiable goods may be confiscated and the person making such an attempt may be fined or imprisoned.

If dutiable goods are brought to these shores to be re-exported (the total value of transhipments under bond being about £18,000,000 a year) they are usually "bonded," *i.e.*, put into government storehouses under the supervision of revenue officials. Bonded goods cannot be removed without payment of the duty due on them, save when they are to be put on board ship for re-exportation. A large quantity of goods, eventually intended for British consumption, are also bonded until actually needed by the importer, either in the hope of a reduction of the duty charged, or to defer payment of the amount due. The importer can thus in the meantime employ his capital for other purposes.

Classification.—The revenue derived from Customs proceeds mainly from the duties on tobacco, sugar, tea, spirits and wines. A few words may be useful on each of these five sources. All other customs produce only about one million between them; these other duties are on cocoa, coffee, chicory, currants, raisins, and

other dried fruits, playing cards and beer. None of them call for any special mention, and some of them scarcely pay the cost of collection. If goods, which have paid excise or customs duty, are exported, a *drawback* or repayment of the whole or part of the duty paid can generally be obtained.

I. TOBACCO.—From this source in the year 1907-8, nearly £13,760,000 was obtained. Cigars are charged at 6s. per lb., cigarettes at 4s. 10d., ordinary manufactured tobacco at 3s. 10d., Cavendish and Negrohead (which contain sweet oil) at 4s. 4d. Snuff and unmanufactured tobacco are charged at rates varying with the percentage of moisture they contain.* The meaning of these duties is best understood when we remember that, when a man buys an ounce of tobacco at 4½d., he actually pays for three ounces, two of which are taken by the state. An average smoker in the upper middle classes may be assumed to buy two ounces of tobacco, one ounce of cigarettes, and a few cigars a week. In a year he will pay in taxes :—

On 6½ lbs. tobacco	£1	4	11
On 3½ lbs. cigarettes	0	15	8½
On 2 lbs. cigars	0	12	0
Total	£2	12	7½

We see then that such a smoker pays over fifty shillings a year through these duties.

Tobacco was at one time extensively grown in the British Isles. As early as 1571 it was successfully culti-

* The lower duty charged on unmanufactured tobacco is not to afford protection to the British manufacturer, but because some percentage of the unmanufactured article is wasted in the process of manufacture. The same is true with regard to the duties on cocoa. It is, of course, impossible to judge with absolute accuracy the exact percentage of waste, and it is probable that some slight advantage is accorded to economical home manufacturers.

vated in England and Scotland. In 1614 an import duty was levied but no tax was imposed on tobacco grown in this country, for excise duties had not at that time been invented. To raise more money from this source Charles II. tried to prevent its cultivation in England. Still tobacco growing continued in parts of this island until 1782, when it was rigorously suppressed. In Ireland tobacco was cultivated until 1831, and one-fifth of all the tobacco consumed in Great Britain was of Irish growth. In that year the industry was declared illegal; but in 1907 an Act was passed legalising the issue of annual licences to grow and manufacture tobacco in Ireland subject to certain terms, while in 1908 a similar act was passed with regard to Scotland. It is probable that tobacco will soon be extensively cultivated once more in the British Isles and that an excise duty, corresponding to the customs duty, will be imposed. Recent experiments in growing tobacco in parts of England have shown that our soil and climate are quite suitable for this purpose.

Irish Tobacco.—Although more properly dealt with under Excise Duties, it may here be mentioned that the charge on Irish-grown unmanufactured tobacco is 2d. per lb. less than the customs duties on the imported article. In this way a small amount of protection is afforded to Irish growers. In the year ending March 31st, 1907, £6,897 was derived from the duties on Irish tobacco. A licence to grow tobacco costs 5s. a year.

2. SUGAR AND ARTICLES CONTAINING SWEETENING MATTER.—The duty on sugar—for space forbids even an enumeration of the many articles which are subject to tax as containing sweetening matter—varies according to the quality as tested by “polarisation.” Seven-eighths of the whole is usually charged at the maximum rate. From

1874-1901 there was no duty on sugar, but in 1901 a tax at a maximum rate of 4s. 2d. per cwt. was imposed to meet part of the cost of the Boer war. The tax continued at this rate until the end of the year 1907-8, but was then reduced to 1s. 10d. per cwt.—a reduction of $\frac{1}{4}$ d. per lb.

Effect of the Duty.—Sugar is now considered one of the necessities of life, and a tax upon it, like all other taxes of this description, falls very heavily on the poor. A duty of 4s. 2d. per cwt. meant that an extra $\frac{1}{2}$ d. per lb. must be paid for their sugar by those who could least afford it. This tax is unfair and thoroughly bad upon all other grounds but revenue needs. Its effect on the consumption of sugar per head of the population is interesting. In 1873-4 the consumption was 52 lbs. per head, in 1901-2, nearly 90 lbs. per head, in 1907-8, little over 80 lbs. per head.

Standard of Living.—In "The Wealth of Nations" Adam Smith praised a duty on sugar as being a tax on an article consumed in large quantities but which could not be regarded as a necessary in any quarter of the globe. The fact that sugar is now looked upon as one of the primary necessities in most countries shows how the standard of living has improved. At first sight this may appear no unmixed blessing, and many people are inclined to protest against "the growth of luxury," and to bewail the good old days when poorer and cheaper food, clothing and lodging, satisfied the mass of the people. Upon reflection, however, it will be seen that the standard of living generally maintained by the poorest class of workers in any community must for safety be such that, in times of scarcity or need, cheaper substitutes may be available, and that retrenchment in food, clothes and housing may be feasible. In Ireland, during the first half of last century,

the common people lived almost entirely on potatoes, the cheapest form of food, and dressed in the roughest clothing, while over one-half of the population lived in one-roomed mud huts. In normal times everything was of the poorest and cheapest description and barely sufficed to maintain them. In times of scarcity the barest means of subsistence had to be stinted or foregone. The result of this low standard of living was intermittent periods of famine. In 1845 the potato crop was 50 % below the normal yield, and in the next two years it was a total failure. An awful famine resulted which destroyed over a million of the Irish peasantry. It is the low standard of living observed by the rice-eating natives of many parts of India which accounts to a great extent for the constant famines which abound in that country. Every history book points clearly to the fact that a high standard of living amongst the poorest workers in a nation is to be regarded as a good thing and not as a sign of decadence.

Merits of the Duty.—The sugar tax is most productive. In 1907-8 it realised over £6,700,000. But even this advantage has not endeared it to the hearts of Chancellors of the Exchequer, and its abolition would be generally welcomed as soon as the state of finances permits. Some few years ago *a free breakfast table* was a popular cry. This meant that no commodity needed for the common breakfast should be taxed. Tea and sugar, as well as bacon, eggs, butter, and bread were all to be free from duty. At present taxes on tea and sugar are in force, while there are arguments advanced by some for taxing dairy produce and flour, and even bacon. The crushing weight upon the poor of all these taxes serves to make them most unpopular, and—wins favour for those who promise their remission.

Sugar a Raw Material.—Nor must it be forgotten that sugar is not only a food, but also the raw material of chocolate, confectionery, biscuit, mineral water, jam and many other manufactures. A tax on sugar increases the price of all these products and, while it lessens the consumption of such goods in our home market, hinders our manufacturers from competing in foreign markets. The effect of the re-imposition of the sugar tax upon the trades affected can be gathered from the many factories that have been closed down, from the short time worked in many others, and from the diminished output and profits of most. Even more clearly can it be seen from the number of skilled workmen, formerly in these employments, who are now engaged as unskilled labourers in other industries or who swell the ranks of the unemployed.

3. **TEA.**—In 1907-8, the duty on tea was 6d. per lb., and the proceeds of the tax amounted to over £5,800,000. In 1908-9 the duty was reduced to 5d. per lb. It may be noted in passing that, unlike all other customs, the tea duty is imposed each year for a year and would lapse if not annually renewed. The first tea-house in England was opened in 1657, and from that date until about 1838 all the tea consumed in Great Britain came from China. Since the latter date tea has been cultivated in many other countries and the greater part of our present supply is derived from India and Ceylon, although considerable consignments of tea are still brought from China. Japan, Java, Natal, and many other lands export a certain amount of tea to this country, and the total annual consumption in Great Britain amounts to about 6½ lbs. per head of the population. It remains "the national beverage" in spite of all scares, although few indulge to the extent of Dr. Johnson, in so many "dishes."

4. **SPIRITS.**—Less than a fifth of the spirits consumed in this country is imported ; for all that, about £4,000,000 a year is derived from customs duties on spirits. The amount of duty varies with the kind of spirit ; ether, chloroform, and the like, being included under this head. Brandy and rum account for seven-eighths of the whole revenue from this source : they are charged at the rate of 11s. 4d. per gallon, with an additional charge when imported in bottles.

5. **WINE.**—This tax in 1907-8 realised nearly £1,200,000. It is one of our oldest taxes and is mentioned in statutes of Edward I. The amount of the duty varies with the degrees of proof spirit contained in the wine. If imported in bottles, still wine pays 1s., sparkling wine 2s. 6d. per gallon extra.

(b.) **EXCISE.**

Excise Duties.—Under this head are included excise duties and excise licences. As to duties, which were first imposed in 1643, the important heads at the present day are spirits and beer. Spirits are subject to a tax of 11s. per gallon, and in the year 1907-8 enriched the Exchequer by over £17,700,000. Beer is taxed at 7s. 9d. per 36 gallons, and this tax in that year realised over £13,100,000. Other articles subject to excise duties are coffee, chicory, glucose, tobacco, and saccharin ; the receipts from chicory being minute. Another excise duty, which in 1907-8 brought in nearly £350,000, is that imposed on railway passenger fares which exceed a penny a mile, in England, Scotland and Wales (not in Ireland).

Excise Licences produce some £4,500,000 of national revenue, and about the same amount of local revenue.*
Menservants, gamekeepers, carriages, armorial bearings,

* See p. 76.

guns, motor cars and dogs, are all considered luxuries, for which a tax must be paid in the form of an annual licence, save in cases where they are employed solely for trading purposes. Thus a tradesman's cart does not need a licence, nor a shepherd's dogs, if only enough to aid him in his work. A shepherd's dog must, however, be licensed if it is used at any time for sporting purposes—a fact which is in practice often disregarded.

Auctioneers, house agents, plate dealers, hawkers, pawn-brokers, retailers and dealers in tobacco, beer, spirits and wine, manufacturers of tobacco, beer, spirits, patent medicines, glucose or playing cards, must all take out a licence every year. If any one does not take out a licence when, as in the above cases, a licence is necessary, he is liable to a heavy fine or to imprisonment. These licences are imposed merely as a convenient way of raising revenue, and call for no special mention, except that those for the sale of beer and spirits have sometimes been confused with the term "licence" as applied to "the trade."

Publican's Licences.—The latter licence signifies something quite different from the excise duties paid to the state for revenue purposes. In this connection the term is employed to mean the licence or permission of the licensing justices to sell to the public intoxicating liquor. This class of licence must be obtained each year and was made necessary as long ago as 1552 to protect the people at large from too many temptations to drink, and to prevent the numerous evils arising from disorderly "tippling-houses." Such licences are not, therefore, issued as a matter of course to every applicant, like excise licences, but are only granted by the licensing justices after due consideration of the character of the applicant and the needs of the district. For many years, it has been the

practice among magistrates to grant the renewal of licences year after year to those who have previously held them and have managed their houses well ; this has given rise to acutely controversial discussion.

From their very nature these licences confer a monopoly right upon their holders to retail intoxicating liquor, and they have become of very great value. The custom of constantly re-granting licences to well conducted former holders has created an "expectation of renewal." The precise nature of this expectation, and the treatment of it demanded by "The Trade," were the main obstacles in the way of the Licensing Bill, 1908. There is a strong body of opinion in this country which thinks that, since licence holders, through the grant of this monopoly, are put in a more favourable position to make big profits than ordinary traders, those who are granted such licences ought to pay something like the annual "monopoly value" of them to the state. Upon the other hand it must be remembered that many people have invested their money on the strength of this expectation of renewal and that it would be hard upon them if the state immediately charged former licence holders the full "monopoly value."

(c.) INCOME TAX.

History.—This is a tax on incomes derived from every conceivable source, and is rather a complete system of taxation on incomes than a single tax. It was first imposed in 1799, and was continuously in force for the next seventeen years. It was then taken off, and was not levied from 1816 until 1842. Since 1842 it has never been abandoned.

This tax was at first most unpopular and was regarded by all as merely a temporary expedient to raise money

when it was sorely needed, as for example in time of war. The Act first imposing Income Tax was entitled "An Act for granting to his Majesty an aid and contribution for the prosecution of the war." In 1842 it was reimposed to pay for social reforms, but in 1853 its abolition after seven years was contemplated. This was prevented by the outbreak of the war with Russia. Even Mr. Gladstone at first declared that it was an exceptional source of taxation and hoped to extinguish it, but in 1860 he came round to the view that it was not only a convenient, but a great and proper means of raising revenue. "It was a rare and residuary agency; it is now a permanent and principal force."*

From its very nature such a tax cannot be popular—it is direct and it is inquisitorial.

Present System.—At the present time no income tax at all is charged on incomes, however derived, which amount to less than £160. If, however, such income be in part obtained from shares in a company, the amount of tax due on such shares is generally deducted by the company before the dividend is paid, although it can then be claimed back from the Commissioners by anyone entitled to rebate.

Incomes between £160 and £400 pay tax on the amount by				which they exceed	
				£160	
"	"	£400	"	£500	£150
"	"	£500	"	£600	£120
"	"	£600	"	£700	£70

Anyone is further entitled to deduct from the amount of his income the premium he pays upon a policy of life insurance; while *earned incomes*, including pensions or payments for past services, of less than £2,000 are also

* Bagehot. *Biographical Studies*.

entitled to a rebate.* Thus in 1908-9 the income tax was 1s. in the £, but on earned incomes of less than £2,000 the rate was 9d. We see then that, with the income tax at that rate, a schoolmaster with a salary of £380 a year, will only pay £8 5s. od. per annum as his share; if a brewer earns £1,200 a year, he will pay £45 Income tax; a man living on an annuity left him by will of £600 will pay £24; a clerk earning £180 a year will pay 15s.

Merits of the Tax.—Charges have been made against the Income Tax mainly upon four lines. It is said that this tax presses too hardly upon the man with a small income—a charge which is not so justifiable at the present day, although a more highly graduated tax might be anticipated. Incomes over, say, £5,000 a year might pay at a higher rate. Another complaint was that, by charging earned and unearned incomes at the same rate, industry was discouraged—on incomes of less than £2,000 this is no longer true. Perhaps a similar distinction between earned and unearned incomes upon amounts above £2,000 is theoretically desirable, but any idea that a man is discouraged from endeavouring to grow rich, because part of his profits will be taken away by Income Tax, is scarcely well founded. A third ground of complaint was, and is, that this tax puts a premium upon lying, because it is largely left to the taxpayer to declare the amount of his income. Undoubtedly there have been, and still are, many evasions of their proper share of payment by unscrupulous people. The machinery for detecting these evasions has been improved, and those whose weekly earnings amount in the aggregate to more

* Deductions for "wear and tear" of plant and machinery may be allowed, while ministers of religion can deduct up to $\frac{1}{8}$ th from the value of a dwelling-house which they rent, in respect of such part as is used for the purposes of their office.

than £160 a year cannot now so easily escape bearing their share of taxation as was formerly the case. Still even at the present time, it is scarcely an over-estimate to reckon that some eight or ten per cent. of the total amount of income which should be subjected to tax escapes payment. The chief and abiding objection to the tax is its inquisitorial character. This, to certain persons and businesses, is a profound grievance.

On the whole, however, it is undeniably a just and useful tax. More than any other it brings home to the individual citizen the cost of government, and ensures a careful supervision of current expenditure and all fresh proposals affecting public money.

Is it excessive?—Despite many complaints about the burden of taxation, there is little doubt that the British taxpayer receives good value for his money. When it is remembered that a man who earns £400 a year, and neither smokes nor drinks, pays only about £9 income tax, and in other taxes but a trifling amount, it is seen that, in comparison with the benefits afforded by a good system of government, the burden he bears is but slight. Even if he drinks and smokes in reason, the total amount he pays in taxes can hardly be regarded as an extortionate demand for the advantages accorded to him.

The Schedules.—The different kinds of income taxed are specified in the five Schedules A. B. C. D. and E. of the Income Tax Act, 1853 (16 and 17 Vict. c. 34.).

Schedule A. is for income derived from the ownership of lands, houses, and most other kinds of real property. Nearly one-fourth of the revenue derived from Income Tax is obtained from incomes included under this schedule.

The basis on which owners are at present taxed is the actual or proper letting value of their land in its present

condition, *i.e.*, the actual rent paid, if the property is let at a rack rent, or, if the property is not so let, the annual rent which a tenant would reasonably be expected to pay. In the case of lands one-eighth, in the case of houses one-sixth, of this amount can be deducted as representing the cost of repairing or keeping the property in order. If A. owns a house worth £240 a year, and land worth £320, he would deduct £40 from each for the upkeep of his property. Thus he must pay on an income of £480. This income being between four and five hundred, an owner in 1908-9 would pay tax on £330 @ 1s. per £., for this is not earned income: that is to say, he pays £16 10s. od. a year. If the property is occupied by a tenant, the tenant pays the income tax and deducts the amount from the next payment of rent. If the property is untenanted and allowed to lie waste, entire relief from the tax is afforded.

Taxation of Land Values.—Many contend that this basis is a wrong one, since it enables landowners to keep back a large part of their land from the market, to charge fancy prices, and to exact a disproportionately high price for such portion of their estates as is devoted to building or industrial purposes. It is urged that the proper basis of taxation is not the actual use to which the land is put, but the full economical use to which it ought to be put. At present, it is said, those who retard development by misuse of their land, are rewarded by having to pay little or no income tax, while every improvement of land leads to an increase of the money due in taxes or in local rates. It is suggested that the taxation or rating, or both, of land values would force landowners to lower rents and to devote more of their land to buildings, farms or small holdings. As against this, it is contended that

such benefits would not accrue, that much overbuilding has already taken place, that certain land is already too heavily encumbered, and that hardship and injustice alone would result. Into these discussions we need not enter.

Schedule B. is for income from the occupation of lands—this is chiefly farmers' profits: if they prefer, they may be charged under *Schedule D.* on the actual profits they make. Only a fraction of the Income Tax comes from this source, for few farmers seem to make over £160 a year, and the majority of them are therefore exempt from this tax. The income from the occupation of land is assumed to be one-third of the annual letting value of the land. If a farmer pays £600 rent for a farm, he will be regarded as deriving from it an income of £200. If the rate is 1s. per £, his income being under £400, he pays tax on £40 only at the rate of 9d. per £: that is to say, 30s. a year.

Schedule C. provides for incomes derived from certain securities. This might well disappear and be included in *Schedule D.*, but for the fact that these incomes can be collected at the source, while those in *Schedule D.* are mainly based on the declaration of the income tax payers. From this schedule only one-fifteenth of the Income Tax is derived, but with less trouble than from incomes scheduled in any other parts.

Schedule D. is by far the most important of the Schedules. Three-fifths of the whole tax is drawn from this source. Under this schedule are included incomes from businesses or professions, most earned salaries, profits from railways, mines and certain other concerns and investments. The usual basis of taxation on profits from businesses and professions is the average of such profits for the three

preceding years ; but any one is now entitled, if he wishes, to be charged on the actual results of the year, and can reclaim any over-payment made on the basis of the average for the three former years. On profits from mines the basis is the average of such profits for the five preceding years.

Schedule E. is concerned with the salaries of Government, corporation and public company officials. As in Schedule C. this tax is collected at the source and cannot be evaded as is the case with many incomes under Schedule D. About one-fifteenth of the Income Tax is derived from this Schedule.

Compulsory Collection of Taxes.—Under the Taxes Management Act, 1880, all assessed taxes are subjected to the control of the Board of Inland Revenue. Officials are appointed, under the titles of Commissioners, Surveyors, Assessors and Collectors of Taxes, with different functions to fulfil, in order to ensure the correct payment by all persons liable. Under Schedules A. B. D. and E., notices are given to taxpayers, and returns of their incomes under these various heads must be made by them. If no return is made, the commissioners may assess or surcharge the taxpayer. If a false return is made, or if any trick to elude payment is detected, or if a fraudulent claim for exemption is attempted, heavy penalties—usually amounting to three times the whole amount of duty payable—are imposed upon those who are found guilty of such practices, and these penalties may be recovered within three years of the commission of the offence. Under the 21st section of the Finance Act, 1907, an employer must, on notice from an assessor, furnish a return of the names, addresses and earnings of his employees, save in the case of those who are employed by him alone, and

whose total annual wages are less than £160. In the case of companies the secretary must make this return. If the tax is not paid within the time required, the taxpayer's property may be distrained upon, or he may be imprisoned until he gives security for payment.

(d.) **DEATH DUTIES.**

A series of duties are included under this head, but only Estate, Legacy and Succession duties need be mentioned here, as the others bring in but a trifling amount. Death duties are paid on the passing of property at the death of the former owner, and those now in force are modelled on the duties imposed by the Finance Act, 1894, when Sir William Harcourt, Chancellor of the Exchequer, made great changes and improvements on the death duties then in existence. These duties are payable on and carry interest from the day of death.

1. **Estate Duty.**—In 1907-8 this tax realised about £14,360,000. It is levied on the total value of the estate; *i.e.*, of the property of whatever nature passing to others on the death of the former owner. This includes not only what the deceased leaves by will, and what passes to his relatives if not dealt with in any will, but also property which on his death passes under former deeds or wills, and gifts made by the deceased within the last year of his life; but of course no duty is paid on any property, such as a pension, which dies with him.

Estate duty is not paid on estates of a smaller net value than £100. On larger sums the rate charged varies with the value of the estate. Thus an estate of £1,000 pays 2%, an estate of £1,000,000 is charged 10%, and on an estate exceeding £1,000,000 the first million pays

10% and the balance higher rates according to the amount.

Settled property of a greater value than £500, pays an additional 1% duty. Property is said to be settled when its future descent is fixed beyond the life of the immediate successor. If the total value of the settled property is less than £500, small fixed duties may be paid instead. This duty is known as Settlement Estate Duty.

2. **Legacy and Succession Duties** are paid on personal and real estate respectively ; each is paid on the capital value of the legacy or succession at rates per cent. varying with the relationship of the recipient. Thus, a legacy of any sum to a daughter would be charged at 1%, to a niece at 3%, but, if left to a person not a relative of the deceased, it would pay 10%. In 1907-8 legacy and succession duties produced about £4,000,000 and £730,000 respectively.

3. **Corporation Duty.**—Although invariably included under this head, Corporation Duty cannot be regarded as a Death Duty. Upon the contrary, it is a tax imposed upon bodies corporate and incorporate which do not die and, for that reason, escape the payment of Death Duties. This duty, which brings in to the Exchequer about £50,000 a year, is an income tax of 5% upon the net annual value, income or profits, of the property belonging to such a body. The property of the Crown, of Friendly Societies, and of charitable, religious, and other such bodies, is exempt from this tax.

(e.) **STAMP DUTIES.**

Under this head are included a vast number of unconnected and miscellaneous taxes which are for convenience paid by impressed or adhesive stamps and which in

1907-8 produced nearly £8,000,000. Practically all duties paid in this fashion are "stamp duties," save that stamps for postage or telegraphic purposes, fee and patent stamps, and stamps to indicate the payment of certain death duties, are not included under this heading. The existing duties are framed on those prescribed by the Stamp Act, 1891, with a few modifications.

Bills of sale, leases, mortgages, and transfers of land must be stamped in accordance with the value of the property transferred; the share capital of companies, bills of exchange, and promissory notes also pay in accordance with their value. On receipts of £2 and over, and on cheques, a penny stamp must be affixed. Heavy stamp duties are paid on admission to their calling by barristers and solicitors, and on the certificates of practising solicitors, as also by those who receive a grant of letters patent of nobility or the title of baronet. But stamps, like licences, are merely a convenient method of collecting revenue; the taxes they represent have little or nothing else in common.

(f.) INHABITED HOUSE DUTY.

Nearly £2,000,000 is derived from this source each year. This is a tax charged on the full annual value of inhabited houses worth more than £20 a year, the rate of the charge varying with the annual value and the type of building. Thus a dwelling-house pays a higher rate than business or lodging-houses and hotels, while a distinction is drawn between houses of a yearly value of over £60, those between £40 and £60, and those under £40. This tax, a lineal descendant of the old hearth and window taxes, is imposed on the occupier, and cannot be deducted from rent, save in the case of a dwelling house occupied by more than

one family. A building is regarded as an inhabited house when someone, other than a caretaker, is in the habit of sleeping there. Inhabited house duty is really a form of income tax.

(g.) **LAND TAX.**

This is a rapidly dwindling, antiquated and unequa source of revenue, which in 1907-8 produced £730,000. It is charged on lands and moneys derived from lands. Its basis is a valuation made over two centuries ago, which is ridiculously disproportionate to present value. By the Finance Act, 1896, it is provided that the tax shall not exceed one-twentieth of the annual value of the property. By the Finance Act, 1898, persons whose total income is less than £160 are wholly exempt, those whose income is under £400 only pay one half of the full tax.

In the case of houses let to tenants,* the tenant pays the tax in the first instance, but can deduct it from the next payment of rent unless he has specifically undertaken to pay it himself.

Redemption.—Anyone who has a legal interest in the property, save a tenant at rack rent, can redeem the tax by a payment which is generally equal to about thirty years' purchase of the amount of the last assessment, and has a first charge on the property redeemed for such portion of the redemption money as is due to him from others interested in the property. This tax has been largely redeemed in recent years.

* That is to say, if the tenant holds at a rack rent, *i.e.*, a rent representing the full annual value of the property. If the property is at a nominal or inadequate rent, the landlord and tenant share this tax between them in proportion to the value of their respective interests.

CHAPTER V.

THE NATION'S INCOME FROM NON-TAX SOURCES.

THE most important source of non-tax revenue is the profits of government departments of a semi-trading character. Nearly three-quarters of a million a year is derived from **the Mint**: this department is concerned with coining the requisite ready money of the realm. A loss is made on gold coinage, but a considerable profit on that of silver and copper.

The Post Office.—This is a department concerned with many undertakings. Though established mainly for the convenience of the public, it has incidentally proved a valuable source of revenue. It undertakes the carriage of letters and parcels, the transmission of money by money order, postal order and telegram, the management of the telegraphic and of a telephonic service, a scheme of small insurance and annuities, and the functions of a Savings Bank. For the carriage of letters and communication by telegram and telephone the State possesses a monopoly; but in the other businesses, with which this department is concerned, it is but one of many competitors. Of these multifarious duties of the Post Office the original one of delivering letters is the most important. Strange to say, a post office for letters to foreign countries was established half a century before inland posting was undertaken; the latter was first set on foot in the reign of Charles I., and was for letters between London and Edinburgh, with branch

posts to other places. Charles II. granted the profits of this department to his brother, who afterwards reigned as James II., for at that date the monopoly of carrying letters within the realm was regarded as a perquisite of the Crown, not as a national undertaking. Down to the end of the eighteenth century the mail was carried by relays of horsemen ; these were superseded by mail coaches, and the coaches in turn by the railway, while the train is now partially replaced by motor vans. For many years prior to 1840 the minimum charge was 4d. per letter for a distance of fifteen miles or under from the post office where the letter was posted ; to send a letter from Birmingham to London cost 9d., from Edinburgh or Glasgow about 1s. 2½d., and these sums were paid by the receiver, not by the sender of the letter.

Everyone is familiar with the story of mingled pathos and fraud which led Sir Rowland Hill to commence and eventually to succeed in his campaign for penny postage within the realm. In 1840, thanks to his efforts, a uniform penny post was established for letters weighing not more than half an ounce. At the same time the old privilege of franking letters was abolished. This was the privilege accorded to peers, members of the House of Commons and certain officials of sending and receiving letters without paying postage. All that was necessary was for the person privileged to write his name on the corner of the envelope. When postage was costly this privilege was often abused, for it was a common practice to get a Member of Parliament to write his name on other people's letters and get them carried post free.

Many changes have been introduced since 1840, allowing heavier letters to go at cheap rates. In 1870, postage on postcards and newspapers was reduced to ½d. Penny

postage to most of the Colonies has been recently established, while, from October 1st, 1908, postage between this country and the United States of America has been fixed at 1d. per ounce.

In 1838 the transmission of money by money orders, and in 1881 the transmission of small sums by postal orders, were undertaken by the Post Office. In 1861 it commenced Savings Banks, which at present allow $2\frac{1}{2}\%$ per annum on deposits up to £200; while in 1864 the issue of insurance policies and annuities for small sums was inaugurated, but has proved rather a failure. Parcel Post was commenced in 1883 and, although not a monopoly, has proved cheap and efficacious. These various undertakings have upon the whole been most successful. The net profit from them in the year 1907-8 was over £5,000,000.

Telegraph and Telephone.—A branch of the Post Office which is considered independently of these in the National Budget is that of telegraphic and telephonic communication. The financial results of these two services are now set out separately, but until 1908-9 no distinction was drawn between them. Together they showed in 1907-8 a working loss of over half a million. At reduced rates the telegraph service might pay, but $\frac{1}{2}$ d. a word with a minimum charge of 6d. is too heavy to encourage the constant despatch of telegrams by the people at large. This service commenced in 1870, and though not yet a financial success, the convenience afforded to the public undoubtedly more than counterbalances the pecuniary loss involved.

Old Age Pensions.—One other work which is now performed by the Post Office is the payment of Old Age Pensions, and the supply of forms of application for such

pensions. This is obviously not a remunerative undertaking but merely a service rendered to the public.

Other sources of non-tax revenue are the annual contributions due from the Bank of England; interest on loans; dividends on Suez Canal Shares; Crown lands; fee and patent stamps; and various other small items. One or two of these sources call for further mention and, in passing, it may be remarked that one of the most interesting, although minute, is conscience money. The Chancellor of the Exchequer receives a small sum each year by way of conscience money—that is to say, a fraction of the money of which certain taxpayers have defrauded the Revenue, and which the pangs of conscience lead a few of them to refund. There is the more important item known as “*Appropriations in Aid*,” which consists of moneys derived from rents, sales of stores, etc, received by the great departments, the Army and Navy, and spent by them without the figures appearing in the Budget Statement. This is by some attacked as an erroneous principle. In 1907-8 such appropriations amounted to nearly £10,000,000, and this amount should in fact be added to the year’s expenditure.

Fee and patent stamps, wrongly classed as non-tax revenue, are respectively taxes on obtaining justice in the Courts of Law—in theory and sometimes in practice borne by the unsuccessful party—and a payment for the grant of monopoly rights to inventors, who are thus rewarded for their service to the public. They produce about £1,000,000 annually.

Suez Canal Shares and Sundry Loans.—In 1859 the Suez Canal was commenced by the Universal Company of the Maritime Suez Canal. The Company’s shares con-

sisted of 100,000 founders' shares and 400,000 ordinary shares of £20 apiece. Of the ordinary shares Ismail, Khedive of Egypt, owned 176,600, and these were bought from him by the British Government in 1875. Lord Beaconsfield, who was then Premier, was freely criticised for indulging in national speculation; time has, however, shown that he was justified, not only because the shares pay well, but on account of the influence obtained by the British Government over the main thoroughfare to the East. Of late years the annual dividends on our shares have realised over £1,000,000, and their market value has risen from about £4,000,000 to over £31,000,000. From time to time the British Government has advanced loans to Fiji and other places: the interest and part repayment of such loans amount to some £60,000 annually.

The Crown Lands.—The rents and profits of these estates at one time formed the greater part of the King's revenue. The generosity of many of our monarchs, in making grants of portions of the Crown lands to their favourites, or as a return for services rendered, constantly decreased their extent very seriously, and even the frequent confiscations and forfeitures of the property of disloyal and rebellious subjects were insufficient to counteract these grants. If the King's income became too small to meet the expenses of government, the deficit had to be made good by applying to Parliament for further revenue, and Parliament, instead of levying taxes upon the nation at large, frequently declared past grants of the Crown lands void, and in this way replenished the royal purse.

In the reign of Henry VIII., the confiscations of the Church estates increased the extent of the Crown lands considerably, but Elizabeth sold a large part of them

to raise money which would enable her to dispense with summoning a Parliament. The Stuarts and William III. by lavish grants once more seriously reduced their extent until, in 1702, all alienations of the Crown lands were forbidden by statute.

Since the reign of George III., the sovereign has on accession surrendered to the nation all claim to the bulk of these lands and has accepted a Civil List in return. These estates are now managed by the Commissioners for Woods and Forests, and in 1907-8 produced profits of which £520,000 was paid into the national Exchequer. Part of the Crown lands is now being used for the allotment of small holdings, under the direction of the Board of Agriculture.

CHAPTER VI.

THE NATION'S DEBT.

Why debt is incurred.—We have so far dealt with the income from which ordinary expenditure is met each year. But there are many heavy expenses which would prove of too crushing a weight if they had to be met out of moneys raised by taxation in the year they were incurred. If such a method were adopted a prolonged war under modern conditions would be impossible. The pressure of taxation would cause the taxpayers to clamour for "peace at any price." Then, too, it is clear that permanent works, such as naval bases and new government buildings, are more properly paid for out of capital than out of income. For these and other purposes recourse is had to borrowing. Loans are contracted, and

their repayment is spread over a considerable period of years. Money may also be borrowed for schemes which for a long time are only a source of outlay, but which may eventually prove a most profitable national investment.

Afforestation is a good example of such a scheme. A Royal Commission on afforestation recommended, in January 1909, that this should be undertaken by the Government upon a large scale. "Money expended in afforestation differs in kind from other calls on the national purse. It is a productive investment of capital. No stronger justification for proceeding by loan than a reproductive outlay exists."* The Commissioners were unanimously of opinion that for forty years a considerable sum would be required to purchase and plant suitable land. After that time, the sale of timber would suffice to meet the normal expenses, including the upkeep and extension of the forest. After eighty years a large annual surplus would be derived which would show a good percentage on the total cost of the undertaking at compound interest. Eventually the whole accumulated cost would be paid off from the proceeds, and the nation would be in possession of a most valuable property, free from mortgage or encumbrance, bringing in many millions a year to relieve taxation.

History of Debt.—In Athens, Persia, Rome, and other great states in classical times, the rulers used to hoard vast treasures, so that in time of need there was a large fund to fall back upon. In England and nearly all other countries until the close of the seventeenth century, money could only be raised by monarchs incurring

* Second Report (on Afforestation) of the Royal Commission on Coast Erosion and Afforestation. Vol. ii., part i., p. 42, sec. 14.

special expenditure, which could not be met by a levy from their subjects, by mortgaging the Crown lands or pledging the Crown jewels.* Nor was it an uncommon thing for kings to repudiate the debts which they had in this way incurred. With the development of banking, and the security of constitutional government, a different expedient has been universally adopted—borrowing on public credit.

For all practical purposes the history of our National Debt may be regarded as commencing in the reign of William III., although small amounts had been raised on the strength of public credit as early as the days of Charles II. On the accession of William III., war had to be vigorously carried on abroad, and at home the Jacobite cause had many adherents. Money was urgently needed, but a recourse to heavy taxation would have caused the smouldering discontent in England to have broken out into open rebellion, and a counter-revolution might have been successful. The only feasible way of raising the requisite funds was by borrowing. Borrowing had indirectly one good effect, for the lenders knew that, if the Stuarts returned, their principal and interest alike would be lost, and this naturally made those who had lent their money, staunch supporters of the Revolution. Upon the other hand, the instability of affairs made men cautious about lending to the King at all. A strange picture of the insecurity of public credit at that time is brought to our minds in Burke's account of the raising of the National debt.† “The Chancellor of the Exchequer

* Prior to their expulsion from the kingdom in 1290 A.D., money was also raised by “squeezing” the Jews.

† See Burke: *Letters on a Regicidal Peace*. (World's Classics Edn.: Vol. vi., p. 136.)

of that day, Montague, the father of public credit, counter-securing the state by the appearance of the city, with the Lord Mayor of London at his side, was obliged, like a solicitor for an hospital, to go cap in hand from shop to shop to borrow a hundred pounds and even smaller sums. When made up in driblets as they could, their best securities were at an interest of twelve per cent."

On the death of William III., the National Debt amounted to £12,000,000. By 1815 it had reached its highest point, and, counting in the capital value of terminable annuities, exceeded £900,000,000. In war time the debt has rapidly increased, for wars invariably entail a heavy drain upon national resources, and the huge expenditure required to carry them on can only be met in part by extra taxation. In times of peace nearly every year sees a small amount of the debt paid off. Thus, at the commencement of the Boer War in the autumn of 1899, after forty-three years of comparative peace, the National Debt had been reduced to about £625,000,000. When the war was at an end in 1903, it stood at £798,300,000, but by the end of the financial year 1907-8, the total had been again reduced, and amounted to £762,300,000. Every time the debt has increased, men have proclaimed that now at last the utmost limit has been reached, and that the State must founder if more indebtedness were incurred. Fortunately the increase of our population and the expansion of our commercial wealth has been so great, that our present burden is less oppressive than the debt of but £50,000,000 was to our ancestors in the reign of George II. But, though our finances might stand the strain of four or five times our present indebtedness without absolute ruin, there is no doubt that the burden is a heavy one and that a prudent

Chancellor of the Exchequer will always provide for annual reductions in time of peace. Not only does the diminution of national indebtedness relieve the taxpayer from the payment of interest upon such part of the principal as is repaid, but all reductions tend to give elasticity to public credit. Lessening the Debt would enable future governments to obtain fresh loans on better terms and with greater ease, if we were again involved in a costly war, or if a large sum were required for carrying out some great and expensive scheme, such as the nationalisation of land, railways or canals.

The Composition of the National Debt.—The whole debt of £762,300,000 on March 31st, 1908, was made up of £39,400,000 representing the capital value of terminable annuities, £46,450,000 unfunded debt, £50,085,000 various loans, and £625,600,000 funded debt.

Terminable Annuities have from time to time been created by granting, in return for money advanced to the nation, annuities for life or for a certain fixed number of years. In the early days of the National Debt, great difficulty was often experienced in getting men to finance the State; and so a small annuity on every £100 advanced was often thrown in, as a special inducement to lenders, in addition to the stock they obtained. The system of payment by a terminable annuity for so many years is no longer favoured, and will soon go the way of the old lottery system in this country; life annuities are, however, still issued.

Unfunded Debt consists of money due on Exchequer bonds, and Exchequer and Treasury Bills, representing sums between £100 and £1,000, all of which are prepared by and paid at the Bank of England. Exchequer bonds, introduced by Gladstone in 1853, are issued for three years

or some other such period of time, and bear a fixed rate of interest. Exchequer bills, first issued in 1696, bear whatever date of payment the Treasury choose, and carry interest fixed every quarter by the Treasury in accordance with the prevailing rate ; they are of exactly the same nature as promissory notes. Treasury Bills have just the same characteristics as Exchequer Bills, but are issued for very short periods and never for more than twelve months.

The sanction of Parliament is required for the issue of these bonds and bills, and is granted to meet temporary deficiencies of cash, or to enable the State to advance loans at a slightly higher rate of interest to assist certain private enterprises. Exchequer and Treasury Bills, being negotiable instruments, form a sort of paper currency which is in some demand and is generally at a premium ; for, if at any time such bills are below par, the rate of interest is increased. In consequence of their convenience these bills usually carry less interest than government stock, and some of them are always kept in circulation.

Various Loans have been raised from time to time under the special provisions of certain Acts, such as the Barracks Act, 1890, for the particular purposes therein defined.

The Funded Debt is by far the greatest and most important part of the nation's indebtedness. At first loans were borrowed on the security of particular taxes which were specifically assigned to the repayment of these loans. That system has long been in abeyance and all the National Debt services are now charged on the Consolidated Fund.

To raise a loan in 1694, the *Bank of England* was established by the Tonnage Act of that year, which authorised the subscription of £1,200,000 by subscribers who were to be formed into a Corporation with various privileges,

and to be called "The Governor and Company of the Bank of England."* From time to time other loans were negotiated with the Bank by granting continuations or extensions of these privileges. Prior to 1751, the interest on the Debt was paid by the Exchequer, but since that date the management of the Debt and the payment of interest has been undertaken by the Bank, which receives as remuneration £325 per annum on every £1,000,000 of debt up to £500,000,000, and £100 per annum on every £1,000,000 beyond that amount.

Issue.—At the present time, when the Government desires to raise a loan, it no longer applies to the Bank, but issues stock for which it invites the public to subscribe. The Bank has, however, a right to commission on public loans subscribed at its offices. When anyone advances money to the State, he now receives, in return for the amount he subscribes, stock of a certain face value, which entitles the holder to a permanent annuity of so much per cent. on this face value, until the Government choose to redeem the stock at that figure. Under this system a subscriber rents out, rather than lends his money, for he cannot claim repayment of the principal advanced, but only the dividends due on the stock, although, of course, he may sell his holding for what it will fetch in the market. Transfers of stock are carried out by altering the name of the stockholder in the books kept for that purpose at the Bank of England.

In former days when public credit was instable, loans were so difficult to obtain that, as is still the case in some states to-day, an advance of about £50 could procure stock of a nominal value of £100. In 1798, for example,

* For the history of the Bank, see Macaulay: *History of England*, ch. xx.; and Bagehot: *Lombard Street*, ch. iii.

a loan of £13,000,000 was required, and for every £100 advanced, the subscriber received 3% stock of a face value of £175, 4% stock of a face value of £20, and an annuity of 6s. for $62\frac{3}{4}$ years. At the present day our Government can usually obtain the full amount of the face value of its stock, and sometimes the stock is issued at a premium.

Consolidation and Conversion.—From time to time stocks bearing very different rates of interest were created. To perpetuate this variety was obviously inconvenient. In 1751, a vast number of stocks bearing various rates of interest were consolidated and converted into 3% *Consols*, and a similar process has on other occasions been adopted. When the prevailing rate of interest in the money market has gone down, the government of the day has given stock-holders the option of being paid off at par, or of accepting a lower rate of interest. Thus it has come about that all our government stocks at the present time carry interest at the rate of $2\frac{1}{2}\%$, or $2\frac{3}{4}\%$.

Sinking Fund.—It has always been an acknowledged principle that, in times of peace, the National Debt ought to be lessened. The first Sinking Fund for this purpose was established by Sir R. Walpole in 1716. The surplus produced by the taxes allocated to pay interest on the Debt was formed into a fund which would, at compound interest, eventually extinguish our indebtedness—for almost magical properties seem to have been ascribed to the workings of compound interest at that date. At the same time that this Sinking Fund was being formed, fresh indebtedness was being incurred, which naturally counterbalanced the attempt to diminish the bulk of the Debt. Another Sinking Fund was inaugurated in 1786 by the younger Pitt and employed in purchasing government

stock, while money was borrowed to replenish this fund from time to time. As Gladstone pointed out, "The Sinking Fund established by Pitt was another form of mischief. By means of the Sinking Fund you were constantly buying up stock at 3, 4, or 5% below the rate at which you were simultaneously creating stock in order to find the money to make the purchase."

The folly of this system of procedure was clearly shown up by Dr. Hamilton in 1813 in his book "Inquiry on the National Debt," enumerating various general principles of finance with regard to public loans. Even at this date one of his principles may be worth quoting ; for "financial errors appear to be endowed with something approaching immortality," and within quite recent years the ridiculous pastime of paying off debt with borrowed money has been indulged in. As Hamilton stated, "The amount of revenue raised in time of peace ought to be greater than the expense of a peace establishment, and the overplus applied to the discharge of debts contracted in former wars, or reserved as a resource for the expenditure of future wars. The excess of revenue above expenditure is the only real sinking fund by which public debt can be discharged."

A sounder Sinking Fund was inaugurated by Sir Stafford Northcote in 1875, the permanent charge for debt being fixed at twenty-eight millions. Unfortunately, it has not been feasible to observe this rule, and the Sinking Fund has been "raided" on many occasions to meet annual expenditure, and has constantly been suspended. Up to 1899 all arrangements for the redemption of the National Debt were incorporated in separate bills but, since that date, they have been embodied in the annual Finance Bill. During the last few years the Sinking Fund has

been vigorously replenished and, between the financial years ending 1905 and 1908, the nation's liabilities have been reduced by over £36,000,000.

Purpose of Loans.—Enough has now been said about the history and working of the National Debt. We have seen that in time of war borrowing is necessary, while for certain permanent works it is an advisable course to adopt. Occasionally, however, money has in times of peace been borrowed for purposes which ought rather to have been provided out of income; for as David Hume pointed out in his essay on *Public Credit*, "It is very tempting to a minister to employ such an expedient as enables him to make a great figure during his administration, without overburdening the people with taxes or exciting any immediate clamours against himself." Expenditure which should be met out of annual income ought never to be raised by loan. One of the great disadvantages of this system is that loans do not cause their effect to be felt at the time they are raised and that therefore less attention is devoted by the public to the expenditure of borrowed money, and wasteful prodigality is not subjected to such keen criticism and resentment.

Sanction.—No loan can be contracted without the sanction and authority of Parliament. Not only does this serve the purpose of subjecting the proposed expenditure both beforehand and afterwards to party criticism, which acts to some extent as a check on too great extravagance but there is here another safeguard for constitutional government, since the Crown or Ministry cannot dispense with summoning Parliament by employing borrowed money to carry on the government of the country.

CHAPTER VII.

THE CONTROL OF EXPENDITURE.

WE have already seen that no loans can be raised, and that no taxes can be legally imposed, without the authority and sanction of Parliament ; and we have investigated the machinery for contracting such loans and the various sources from which money is derived each year to pay for the different objects of government. It now remains to glance at some of these objects, to consider the control over expenditure, and to examine the checks which secure that the nation's money shall only be used for the purposes and in the manner approved by the representatives of the nation.

Classes of Expenditure.—The purposes for which the national funds are expended are well known, and there appears to be no need to define them further than has been already done in the first chapter ; but the proportionate amounts expended upon the various classes of national objects is of interest. Taking 1907-8 as our typical year, we find that the navy cost £31,141,000, the army £27,115,000, and that National Debt services amounted to £29,500,000. The National Debt is, almost in its entirety, the burden bequeathed to the nation by past wars ; so that, adding the debt services to the cost of the army and navy, we find that out of a total expenditure of £151,812,000 no less than £87,756,000 is annually required to pay for past and to prepare for future wars. The cost of collecting the revenue (including the maintenance of Post Office, Telegraph and Telephone Services)

amounted to £20,149,000, while £11,115,380 was paid out of national revenue to assist local government.* Thus it is found that only about a fifth of the whole expenditure, or to be more exact £32,000,000, is employed upon all objects, unconnected with war, with which government is concerned—and even in this amount are included certain pensions for naval and military service. If, however, we add to this sum the amount of the contribution to the Local Taxation Account, we find the national expenditure is composed as follows:—

Navy, Army and Debt Services	..	£87,756,000
Expenditure for peaceful purposes	..	43,307,094
		<hr/>
Total real expenditure	.. ..	£131,063,094
Cost of collecting Revenue	.. ..	20,749,000
		<hr/>
Total of all expenditure	.. ..	£151,812,094

Control.—The great bulk of the revenue is collected by the Commissioners of Inland Revenue, the Commissioners of Customs† and the Postmaster-General. The money collected is paid into the Exchequer Account at the Bank of England, and the daily payments in are notified to the *Comptroller and Auditor-General*. This official, whose office was created in 1866, is the head of the Exchequer and Audit Department, and is a permanent Civil servant, independent of party. His duties, signified by his title, are to control the issue of the nation's funds, and to audit its accounts. He may not have a seat in either the House of Lords or the House of Commons, his salary is charged on the Consolidated Fund, and he can only be

* See Chapter viii.

† The functions of Commissioners of Inland Revenue and Commissioners of Customs are now performed by the Commissioners of Customs and Excise. This amalgamation of the Customs Department with that of Inland Revenue is in pursuance of an Order in Council which took effect from 1st April, 1909, and which was made in exercise of powers conferred by section 4 of the Finance Act, 1908.

removed for misconduct, upon a petition passed by both Houses of Parliament. The Consolidated Fund is the name given to the nation's money standing to its credit in the Exchequer Account at the Bank of England. Certain expenses are "charged on" the Consolidated Fund, and are known as Consolidated Fund Services; all expenses not so charged are known as Supply Services.

Consolidated Fund Services consist of the Civil List, the payment of interest and of the expenses of management and the part repayment of the principal of the National Debt, national contributions to the Local Taxation Account, the cost of maintaining the Courts of Justice, salaries of the judges and other non-political officials, pensions, annuities and certain miscellaneous expenses and allowances, such as contributions to Greenwich Hospital. These expenses are all paid under the authority of permanent statutes, and are not granted annually by Parliament.

Supply Services, upon the other hand, are all authorised by parliamentary authority each year for a year. This distinction is in many ways useful. The salaries of judges and other non-political officials should not be subjected to party criticism or to the arbitrary action of Crown or Government. If the amount of their emoluments were dependent on party considerations, undue pressure could be brought to bear upon them in their decisions and their conduct of affairs. Upon the other hand, the salary of a member of the government is properly a question for the consideration of the House of Commons, and a reduction of salary may be proposed in order to afford an opportunity to discuss a minister's conduct or policy.

Issue.—The Consolidated Fund cannot be drawn upon without first complying with certain formalities which

prove a check upon unauthorised expenditure. A Royal Sign Manual Warrant, authorising the issue of the sum required and countersigned by two Lords of the Treasury, is sent with other documents, styled Treasury Warrants and Issuing Letters, to the Comptroller and Auditor-General. This official first fully satisfies himself that the amount demanded, and the purposes for which it is demanded, are both strictly in accordance with votes of Parliament, and that the various documents are in the proper legal form. When he is fully satisfied upon these points, he directs the Bank of England to give a credit for the amount required. The Treasury is then entitled to draw upon the Consolidated Fund to that amount, and usually causes the sum authorised to be transferred to the account with the Paymaster-General of the department for which it is required. The heads of the department are informed that this part of the sum voted to them by Parliament is standing to their credit, and they may proceed to use it. The Treasury cannot interfere with the general financial business and the contracts of a department, beyond calling upon any department which seems to be spending too much money, to revise its accounts, and to see whether it has sufficient funds for the public service for the rest of the year.

Audit.—When the money has been spent, the department must account for the disposal of every penny of it to the Comptroller and Auditor-General or his assistants, who must be satisfied that it has been spent in exact accordance with the votes of Parliament. This official must further make out separate reports upon the expenditure of every important department, and must embody in it any suspected irregularity or any expenditure to which he takes exception.

Departmental Expenditure and Receipts.—A department may occasionally have to meet certain expenses before the authority of Parliament has been obtained. In such a case the payment must be ratified within the year, or it is an illegal payment which cannot be met out of the nation's money. Save in the case of sums voted for naval and military departments, no portion of a grant to a department for one purpose can be applied by it to any other purpose, but the surplus is handed back to the Exchequer together with any extra receipts proceeding from the sale of old stock or other incidental proceeds. The departmental accounts and the report upon them by the Comptroller and Auditor-General are submitted to the *Committee of Public Accounts* of the House of Commons. On this committee there are always men of commercial and financial experience, and the reports and accounts are carefully gone into and scrutinised. If the Committee is not fully satisfied on any point, it inquires into the matter, however small the amount at issue, and endeavours to obtain clear proofs that everything has been honestly and regularly conducted. The Committee then reports to the House upon the way in which the money of the nation has been expended.

Summary.—In this fashion a complete check over expenditure is maintained, and the House of Commons, which in the first place assented to the several votes for expenditure and sanctioned the means of raising the money required, can at the end of the year see whether the supplies it voted have been expended in strict accordance with the authority and wishes of the House. Thanks to this elaborate and effective system, and to the fact that the accounts of one year are not allowed to run into the accounts of the next, every surplus or deficit

being annually dealt with, Parliament and the nation can estimate the financial position of this country at any time with an exactitude which is unknown in the case of any other people. And yet, as we have seen, the system is still open to some criticism, as omitting material items.

CHAPTER VIII.

LOCAL TAXATION.

THE burden of national taxation is often considered grievous ; but complaint does not end there. The rates excite an even sterner remonstrance—using the term “rate” to cover all those charges which are exacted from the citizen by officials who do not represent the National Government. The demand for efficiency in matters of local government has become more and more urgent during the last fifty years ; and, side by side with this, a great number of duties have been imposed upon local authorities, and services have been performed, of which our fathers little dreamed. The interests of public health, the provision of public buildings, the multiplication of officials, the more exacting requirements of education, have all entailed a vast increase in local expenditure. An approximate estimate of such expenditure for all purposes is over £160,000,000 a year.

Sources of Local Revenue.—The whole of these moneys is not, however, provided by rates. Large grants are made in return for an efficient discharge of certain semi-national, semi-local services out of the sums voted by Parliament. Then, too, many local authorities possess

property from which an income is derived, and some have so established undertakings, like waterworks or tramways, that a profit is now available for the ratepayers. This is an increasing source of income and bears an analogy to the profit earned by the nation through the Post Office, but is not without its critics. The total local expenditure in 1905-6 was met, as to £74,000,000 from rates, £23,500,000 from government contributions and £30,000,000 from loan issue, a large amount being also derived from reproductive undertakings.

In many foreign countries local revenue is raised by an *octroi* duty on certain produce brought into the town, and this of course, while providing funds, is a sort of local "protection" which sends up the price to the consumer. Such a practice is not now followed in this country, but it may be noted in passing that the policy, sometimes indulged in, of keeping contracts in the hands of local contractors, instead of accepting lower tenders from outside, is a sort of "preference" which reacts on the rates.

Under the name of "rate" are colloquially included water, gas, and electric light rates, which are really charges for definite supplies and bear more resemblance to tradesmen's bills. They have, however, the same unpleasant insistence as rates proper, partly because payment can be enforced by summary measures, and partly because, in the minds of some people, what comes without effort through a pipe is a species of property for which the demand of payment may reasonably be resented. Over these "rates" there can, of course, be the easiest of all checks—that of economy or non-user. We refer to them here, simply to get rid of a misnomer, although we have already observed, and we shall notice hereafter to what

extent, these undertakings, when successfully worked in the municipal interest, have earned profits in relief of rates. Let us now glance at the sources from which local revenue is obtained, and first at that portion of local revenue which is *not* raised locally.

National Payments to Local Taxation Account.—Until 1888, Parliament made annual grants-in-aid towards specific local services of a semi-national character, *e.g.*, towards the maintenance of the police and certain roads, the expenses of pauper lunatics, salaries of Poor Law officials, the institution of criminal prosecutions and other purposes. In 1888, a *Local Taxation Account* was formed into which were paid certain *Assigned Revenues*. This account was placed under the management of the Local Government Board which apportioned the money among County Councils. These Councils in turn allocated part of the sums they received towards certain expenses of lesser local bodies within the County. The moneys paid into this account were not until 1907 regarded as part of the National Revenue, but were “local taxation revenue,” and various separate grants were made from national funds. Since the year ending 1907, contributions in aid of local taxation have been paid direct into the Consolidated Fund, and the payments to local bodies are charged on the Fund.

Subsequent to 1888 additions were made, with the result that the Local Taxation Account for England and Wales consists of :—

1. The Local Taxation Licence Duties, and the penalties recovered in connection therewith, amounting in 1907-8 to £4,120,000.
2. The Death Duty Grant, being 80 per cent. of half the proceeds of the Estate Duty from personal property, amounting in 1907-8 to £4,475,000.

- c The Beer and Spirit Sur-taxes, being 80 per cent. of the additional Customs and Excise Duties of 3d. a barrel on beer and 6d. a gallon on spirits, amounting in 1907-8 to £1,402,000.
4. Grants under the Agricultural Rates Act, 1896 (since renewed), which further increased the Local Taxation relief. Under this Act exemption for the occupiers of agricultural land was provided in respect of one half of certain rates, and, to meet this deficiency in local revenue, a fixed grant was made from the Exchequer, amounting to about £1,500,000 a year.

In 1907-8 the total of the Local Taxation Subvention Revenue exceeded £11,000,000.

Of this a variable payment is made from the Death Duty Grant in respect of the *Diseases of Animals*; and £300,000 a year for *Police Superannuation* is specially charged on the Beer and Spirit Sur-taxes, and divided equally between the Metropolitan Police and the Police Authorities of England and Wales.

Subject to these charges, the Licence Duties are assigned to the County Councils in whose areas they are collected and the Death Duty Grant and Beer and Spirit Sur-taxes are apportioned in the same way as the former grants-in-aid.

Towards Elementary Education, grants are also made direct to the Education Authorities according to the number of scholars and the efficiency of the Schools. In the year ended March, 1907, the amount of such grants was about £10,500,000.

Revenue Raised Locally.

The Rate—the amount demanded by a local government authority as a contribution towards local expenditure—is based on a rough idea that the individual benefits by local services and improvements in proportion to the annual value of the premises he occupies. Once that “annual value” is determined—and its assessment has been, and is, the ground of much legislation and litigation and entails a complicated machinery—the amount payable is so much in the pound according to the requirements of local expenditure. Most local rates are assessed on the Poor Law valuation.

It follows that, while the burden of taxation is equal throughout the country, the pressure of rates varies. But the advantages derived from payment of rates vary too; so that the first enquiries made by those thinking of establishing a business or taking up their residence in a particular district, are “What are the Rates?” and “What does the Local Authority do for them?”

Although all general rates are payable according to the supposed ability of the ratepayer, judged by the value of the property he occupies, certain classes of property are *exempt from rates*, e.g., places of worship and certain schools, literary and scientific societies not for profit, burial grounds and, in theory, Crown property.

The rates are collected from the occupier—unoccupied premises being exempt (except in the City of London, where they pay one-half the Sewers Rate). In the case of small property, or flat property, the landlord generally compounds for the payment. Extreme poverty may also be accepted as an *excuse* for payment. On the other hand, what is not an excuse but a “conscientious ob-

jection," is sometimes set up by those who object to the purpose for which they allege the rate is to be devoted ; as where the " passive resister " refuses to pay voluntarily part of the Education Rate.

What **General Rates** may be payable varies so much with the system of local government throughout the country, that a complete understanding of the rating system can only come with an accurate knowledge of the still far from uniform system of local government.

It generally happens that an *urban district* has incurred heavy expenditure in connection with such works as sewage disposal, paving, and public buildings, for the general benefit, which in a *rural district* are either not needed, or are left to individual provision or provided only for certain areas. Urban and rural districts themselves vary very much, some urban being small or scattered, and some rural populous in part and extensive. Urban powers may be conferred on rural districts with the consequent increased liability to rates ; and in ordinary rural districts there has recently been a marked tendency towards more stringent building bye-laws and regulations in the interests of public health.

The Education Rate, in particular, varies very greatly throughout the country, and there is a strong feeling that education and its accompanying obligations should be much more a national charge than a local one.

The purposes for which general rates are now made may be summarised as :—

The relief of the poor.

The expenses of education.

Local government, offices, salaries, and buildings.

Police.

The maintenance of roads.

The lighting of roads and public places.

Sewage disposal, scavenging, and the enforcement of sanitary provisions.

The acquisition and maintenance of parks, open spaces, libraries and museums.

Debt service on permanent works.

Rates may also be levied for a great number of other purposes, the authority to expend money upon which may depend upon the adoption in the manner prescribed of special Acts of Parliament. New legislation is constantly placing upon ratepayers or their representatives, the duty or the option of undertaking further provision for the good government, better health, or education of the people at the expense of the rates. But a stranger might well be surprised to find that, while a library or museum may be, and often is, maintained from the rates, ordinary hospitals are supported by voluntary endowments and contributions.

Local Government is administered in counties, boroughs, county districts, urban and rural, and parishes, each with its council, while the Poor Law is administered by Boards of Guardians. It generally happens that there is at least one borough or city in a county of which the town or city council has larger self-governing powers than the council of a district, and, if of over 50,000 inhabitants, the borough may be an administrative county itself. A county borough then makes contributions to the county towards the cost of assizes, jury lists, parliamentary elections, etc. All these local authorities have certain powers of expenditure and, in respect of permanent works, of borrowing, for which they must in general seek the aid of the rates. The whole of the amount expended by them is not, as we have seen, raised in this way.

Central Control.—Over the whole of our local government, and with special force over Poor Law authorities, the *Central Authority*, known since 1871 as the *Local Government Board*, has large powers in respect of sanction, compulsion, inquiry, audit and giving advice. The *audit* over those local authorities which are subject to it, it may be remarked, is not a mere checking of accounts and vouchers. It is regularly made by the district auditor who will disallow all items not sanctioned by law, and surcharge the payment on the members authorising it. There is an appeal to the Local Government Board, however, from the district auditor, and a particular expenditure may either be allowed, or the surcharge in the particular instance be remitted. For example: a London Borough Council has appealed successfully against the refusal by an auditor to sanction out of the rates payment for an address to the Mayor, for carriages for the Mayor's attendance at services, and for posters and band programmes.

What Bodies can Levy Rates.—In England and Wales, outside London, which has a system peculiar to itself, support from rates is required by County Councils, Town Councils, District Councils, and Parish Councils, as well as by Boards of Guardians.

The Revenue of a **County Council**, the County Fund, for its ordinary and special work (such as Education, Asylums, and Small Holdings) is derived from County property, tolls, rents, etc., fines for breaches of bye-laws, etc., the Exchequer contributions, and the County Rate. This rate is collected, through the Guardians, from the various parishes in accordance with an assessment made by a committee of the Council itself on the property in each parish. The Guardians collect the rate through the overseers and pay the amount to the County Treasurer.

A special rate may be made upon a district specially benefited by works.

Payments are made out of the County Fund by the County Treasurer on an order signed by three members of the Finance Committee and the Clerk.

Estimates are prepared at the beginning of each financial year, and accounts are kept as prescribed by the Local Government Board. There is an annual audit by the Board's District Auditor.

In 1906-7 in England and Wales (excluding London) the amounts raised by county rates were, general, £2,964,241, and special, £3,681,135, the average general rate being 1s. 6½d.

In a *City or Borough* the Council has powers as a **Municipal Corporation** as well as exercising those of a District Council. It may raise money and supplement the Borough Fund (from property, rents, tolls, etc.) by a *Borough rate*, collected by the overseers of the poor. As a Sanitary Authority, the Council levies a *general district rate* collected by its own officials, which differs from the Poor Rate and rates levied with it in that agricultural land, railway and canal property and tithes only pay at one quarter their value, the benefits they derive being much smaller.

Whether a Borough has a separate Quarter Sessions, supports its own police force, has a Commission of the Peace, or many other powers, depends upon its size and importance, or the privileges conferred by its charter.

Ordinary salaries and recurring payments can be paid without order, but other payments only on an order of the Council signed by three members and a clerk. There is no prescribed form for Borough Accounts; the Audit is not by the Local Government Board Auditor, but by three auditors, one appointed by the Mayor, and two elected

by the burgesses. The accounts must, however, be rendered annually to the Local Government Board.

A Town Council, or "Municipal Corporation," as it is more correctly termed, must seek the authority of the Local Government Board for loans, and, if it is the Elementary Education Authority, the accounts of its Education Committee, as well as those of its Distress Committee under the Unemployed Workmen Act, 1897, must be audited by the Local Government Board Auditor.

The total Borough Income for 1905-6 was nearly £50,000,000 to which national contributions amounted to nearly £5,800,000, and the rates contributed £17,270,000.

The total loans at the same period were in County Boroughs and other Boroughs £240,350,000, of which £140,000,000 was for reproductive undertakings.

Municipal Trading.—Some notice of a subject must be made here which is of special interest to Borough and Urban District Councils, although it has its importance even in the eyes of a Parish Council, viz., the results of trading undertakings owned and worked by local authorities.

These, on the whole, show an increasing return due to reproductive undertakings, and, from the last figures available in Boroughs, the proportion of revenue to disbursements upon this account appears to be as 5 to 3, the income from such undertakings being equal to nearly 23 per cent. of the total revenue.

The relief to the Local Rates may be evidenced by a few examples, in some cases the result of financially successful single undertakings and in others of a balance on successful and unsuccessful municipal enterprise in such directions as tramways, water, gas, and electric light supply, markets and telephones. In the following towns

the relief to the rates amounted in a given year to 1s. 4d. in Abergavenny, 5d. in Birkenhead, 1s. in Blackpool, 10½d. in Leeds, 7d. in Manchester, and 1s. 7d. in Dewsbury.*

Municipal trading is, however, a subject too controversial to engage much of our attention; but it is undeniable that in a certain class of undertaking, not only can a cheap service be worked to the benefit of the inhabitants, but a profit can be made for the ratepayer. For example, the Hull electric tramways have, during ten years, provided a great convenience for the city and shown a total profit of £230,000.

County Districts.—Other populous places in a county are generally *Urban Districts*, although these vary in size from 1,000 to much over 100,000 inhabitants. The general expenses of an Urban District Council are defrayed out of a *general district rate*, as the sanitary expenses are in a borough. The accounts, as well as the borrowing powers, of Urban District Councils are subject to the Local Government Board. The general district rate is about 3s. 7d.

The other parts of the County are grouped in *Rural Districts*, which are the same as the Poor Law Union areas, less the boroughs and urban districts. Inasmuch as these districts are often scattered and present great varieties, some town and some agricultural, the class of improvements—sewage, open spaces, allotments, etc.—varies throughout the district, and the corresponding expenses are charged as *special* in the parish or drainage district affected by them. The *general* expenses are paid out of the common fund provided by the Poor Rate, averaging 1s. 7½d., to which, unlike a general district rate,

* From a calculation in the *Municipal Journal*, 22 January, 1909.

agricultural land, etc., contributes on its full value. In both urban and rural districts a *private improvement rate* may be made to recover the cost of outlay specially benefiting the property of particular persons. This is subject to appeal to the Local Government Board. The Audit is the same for Rural as for Urban District Councils.

The Parish is the unit of local government in rural districts. A Parish Council may incur, with the consent of the Parish Meeting, expenditure to the extent of a 6d., otherwise a 3d., rate. With the consent of the County Council and the Local Government Board, a Parish Council may borrow, to a certain extent, for land purchase or permanent works, on the security of the Poor Rate. By adopting certain Acts of Parliament, a Parish Council may provide other services, such as Baths and Libraries, at an additional expenditure. These rates are levied by the overseers of the parish.

Poor Law.—The expense of administering the Poor Law by the Guardians is paid out of the "common fund" of the Union. On few questions has public opinion been more keenly aroused in recent years than over the alleged extravagance and irregularity of Poor Law expenditure. Yet the control of the Local Government Board is searching. The whole question has been considered by a Royal Commission, and it is not improbable that, burdened with multifarious duties as they are, the Councils may, in the near future, be called upon also to take direct or indirect control of the Poor Law administration.

The present expense of Poor Law officers (although half is charged on national funds) and the upkeep of the work-houses and other buildings causes a huge outlay, quite apart from the actual relief, indoor and outdoor, medical, vaccination, and miscellaneous expenses. The Guardians,

acting through the Assessment Committee, are also the Rating Authority charged with the preparation of Valuation Lists of all rateable property in the Union. In 1904-5 Unions in England and Wales expended £14,440,000 in relief of the poor.

The *Poor Rate* proper (as well as those parts of it before noticed) is levied on the precept of the Guardians by the overseers of each contributory parish. This makes the "common fund," together with the contributions paid through the County Council from the Exchequer Contribution Account towards the cost of officers' salaries, the maintenance of pauper lunatics, and the supply of drugs and medical appliances. This rate amounts to nearly 1s. 4d.

The accounts of the guardians and master of a work-house must be kept in the form prescribed by the Local Government Board, and, together with those of the overseers and assistant overseers, are audited half-yearly by Local Government Board auditors.

London.—Quite unlike any other portion of the British Isles, London has a system of government embracing some features of county, city, and borough, and costing some £15,000,000 per annum.

The County, which comprises parts of Middlesex and the surrounding counties, is governed by a County Council with more than ordinary powers; but the Council has not the control of the Police Force, which, in the Metropolitan area, outside the City, is under the Home Office. The London County Council levies a rate which is equalised in the metropolis. In 1909 the general County Rate was 1s. 5d., and the Education Rate 1s. 7½d.

The City of London, with its ancient unreformed Corporation, has large funds from city lands, markets, etc.

There is a Police Rate for the support of the City Police, and a Sewers Rate. There is no Local Government Board Audit, nor is consent required for contracting loans. The City has an independence far removed from the other contributory parts of the County of London, the *Boroughs*, formerly governed by Vestries, but now by Borough Councils. The Borough Councils discharge local government and sanitary duties, making rates in the several parishes, which vary from about 6s. in Westminster to over 10s. in Poplar, but they also benefit by grants under the Equalisation of Rates Act. In both County and Borough Councils there must be a Finance Committee to authorise payments, and the audit and borrowing powers are subject to the Local Government Board.

The *Poor Law* is administered in London as in the country by Boards of Guardians.

In Scotland and in Ireland a similar scheme of Local Government prevails, under the partial control of the respective Central Authorities. The Glasgow Corporation has a "Common Good Fund" which it can use at discretion.

Education.—Whether the education authority is the County Council or the Council of the Borough or Urban District depends, outside London, on the population and whether the local authority, if the area is sufficiently large, elects to undertake this duty. Whatever be the authority, it acts through an Education Committee specially elected for the purpose. In England and Wales the average cost per child is about £3 4s. 10d., while the total cost of education exceeds £20,000,000, of which nearly half has to be provided by rates. In London alone £5,500,000 is annually spent on this purpose, £1,000,000 being for Higher Education. In Scotland the cost of

primary schools in 1907-8 was nearly £2,000,000; in Ireland national education costs nearly £1,500,000.

The Making and Enforcement of Rates.—We have seen that various local authorities depend upon rates for the support of their work, and it is obvious that they must be in a position to enforce payment. In accordance with the Valuation List in force in the parish, each ratepayer is served with a demand note to pay his quota of so much in the £ towards the sum required in the locality. The rate is then collected by the officials—subject to any valid objection, such as a defect in the form or particulars of the demand note. If the sum due is not paid summary proceedings can be taken and a distress may be put in on the goods of the recalcitrant ratepayer. If such distress be evaded or sufficient goods are not forthcoming, payment may be enforced by imprisonment.

The Increase in the Rates and the growth of debt due to Local Government and Poor Law administration is a matter of constant criticism and justifiable anxiety. But it must not be forgotten that duty to the citizen, young, in full age, and in old age, was never so highly appreciated, and that the various local areas were never so creditably and efficiently served in the interests of the ratepayers by representatives who are entirely unremunerated, and by permanent officials who were never more able, specially trained and disinterested. It must also be borne in mind that against this debt there is an immense amount of corporate property; one part bearing its ordinary commercial value, another increasingly productive, and a third, from its very nature priceless, the common enjoyment of which is not only a great asset, but has its social effect on the well-being, character, and public spirit of the people.

CHAPTER IX.

REVENUE AND PROTECTIVE TAXES.

WE now approach a branch of our subject which has long been a troublesome one in the world's politics ; but, although in this country it has fallen so much within the province of the party politician, some mention of it cannot be omitted from a survey of the Nation's Income.

Under our existing financial system taxes are imposed merely for *revenue purposes*. Customs are either put on commodities which are not produced at all in this country, or, when they are imposed on goods produced here, corresponding Excise Duties are levied. In this way the production of the articles taxed is neither fostered nor discouraged. Our market is left open to the competition of home and foreign producers upon equal terms.*

It was of course the energy of Cobden which induced Sir Robert Peel to give legislative effect to the economic

* To this equality there is an exception in the case of bounty-fed products. A bounty is a negative tax for, instead of producing revenue, sums are paid out of the national funds to the grower or exporter of such goods. The bounty-fed products are sold at far less than cost price to the importers, and the exporting nation is taxed to recompense the exporter. Such a system finds few adherents at the present day. The only important instance of a bounty-fed product is sugar. Prior to the Brussels Sugar Convention in 1902 we bought such sugar from Germany, Austria, Russia and other countries at very low prices, the foreign exporters being encouraged by bounties with a view to fostering sugar growing and refining. At that Convention Great Britain, on the ground that this system injured the sugar plantations of the West Indies, agreed to prohibit bounty-fed sugar. From this agreement we withdrew in 1908 in the interests of the home consumer. Cheap sugar, of course, greatly benefits also manufacturers of chocolate, confectionery, biscuits, jam, mineral waters and many other articles.

views of Adam Smith by the Repeal of the Corn Laws in 1846, and ever since that date these principles have guided our financial course.

The supporters of the present system point out that this policy benefits the great army of consumers. "To buy in the cheapest market and to sell in the dearest" has for many years been their accepted maxim. But while this policy has brought a cheap and ready supply of food, raw materials and manufactured articles to the doors of all but the destitute, and has rendered even their lot more easy to alleviate, yet there are many who contend that the adoption of this system is detrimental to our manufacturers and other producers, and therefore to the country as a whole. A considerable body of opinion has always been in favour of "protecting the home market" for the home producer by imposing import duties on such foreign goods as can be produced in Great Britain. It is also hoped that at the same time a much needed increase of revenue may be raised by this means. The advocates of this doctrine have chosen the name of *Tariff Reformers*, while their opponents retain that of *Free Traders*.

Unfortunately it has become difficult, owing to the stress of party politics, to discuss this complicated question in the judicial spirit it deserves. Complicated as such a financial problem must be, confusion is often worse confounded by the introduction of issues which have really no connection with it; by allegations of benefits which may well be due to other causes, or of disadvantages which are quite independent of fiscal policy.

Comparison with other Countries.—Both sides are fond of comparisons with foreign nations. Tariff Reformers maintain that many other countries employing a system

of heavy protective duties, and especially Germany and the United States of America, have, during the last thirty years, greatly increased their commercial prosperity. The trade of these countries, and particularly their output of manufactures, has grown at a greater proportionate rate than that of Great Britain. This fact Tariff Reformers attribute to these protective duties which, they contend, enable foreign manufacturers to conserve their market and regulate their output.

All contentions, however, which rest on comparisons with other countries must be accepted with extreme caution. Once we were practically the only great manufacturing nation, and it is but in recent years that other countries have become our keen competitors in industry. This fact is quite independent of fiscal policy, for no system of taxation adopted by Great Britain could have checked the natural development of other nations. We could not hope to go on exporting machinery to foreign countries and, at the same time, to retain a monopoly in the production of manufactured goods. Apart from this fact, other nations would not have been content to remain purely agricultural and to arrest their natural progress towards an industrial future. Then, again, in a country that is just developing its industries, the proportionate rate of progress is inevitably greater than in one more advanced—just as a new business, starting from nothing, may for the first few years double or treble its annual turn-over; but its proprietors may reasonably be satisfied if it then continues to progress at a much smaller proportionate rate of increase. Great Britain cannot be compared with the United States, which possesses not only twice our population, but also immensely greater territory and natural resources so rich as to render it

practically self-supporting. Nor must it be overlooked that absolute free trade exists between its component States. For similar reasons accurate conclusions could not be drawn from comparisons with Germany, which is also a large free trade area, thanks to its Customs Union or "Zollverein." Both these countries have but recently opened up their *coal deposits*. No fiscal system can have such effect on national prosperity as the possession and working of coal mines. It is not too much to say that Great Britain, Germany and the United States are the three great manufacturing countries because between them they produce four-fifths of the world's coal supply. Coal, we know, is not sent to start manufactures in places where raw materials are abundant, but these are brought to the neighbourhood of the coal fields. Spanish iron ore is exported: the Potteries are in the Black Country—not in Cornwall where potter's clay is found: no cotton is grown in England, but the centre of the industry is Lancashire. Then, too, the energy of our people has been ascribed to our detestable climate, which has been called our greatest national asset—happily, an imperishable one! It must not be lost sight of that climate, coastline, the skill, character and education of the people, as well as those other natural advantages to which we have alluded, are of paramount importance, and have all to do with the progress of a nation.

Could Servia under the most perfect fiscal system rival in proportionate wealth the United States? Yet the inventive genius, frugality and industry of the Swiss have projected their manufactures throughout the world. It must, however, be remembered that "in Switzerland they work about thirty per cent. longer hours than in England, and the wages of the Swiss workman are a

little above one half on the average of the British workman.”*

It is obvious that increase of trade, and especially proportionate increase, is not a final test in comparing the fiscal systems of different nations. *National prosperity* depends upon a multiplicity of factors, many of far greater importance than the particular policy of taxation adopted. For the same reason the arguments of Free Traders in support of the present system, based on the superior *volume of our trade*, the high wages of our workmen and the cheapness of necessities in this country, cannot be regarded as conclusive. We have it from independent investigation that the hours of labour are shorter here than in Germany or in the United States; rents are lower here, though, we are told,† housing is not as good, while commodities are so much cheaper as to neutralise the difference in wages even between England and America—at all events in the case of skilled workmen living in large industrial centres. “Several such workmen in different towns (in U.S.A.) have told me that the higher cost of everything does in fact swallow up the advantage, and I have met with none who stated the contrary.”‡ In Germany wages are lower, and the cost of living is higher, than in this country. From the Board of Trade Report on the “Cost of Living in French Towns,” made in 1909, we further learn that an English workman, with an average family, who went to France and endeavoured to maintain his accustomed mode of living would find his expenditure on rent, food, and fuel substantially increased, while his wages would be much lower and his hours of work longer.

* Evidence of the Hon. C. A. Parsons in Vol. iv. of the Reports of the *Tariff Commission*.

† Shadwell: *Industrial Efficiency*. Vol. ii., pp. 212–213.

‡ *Ib.* Vol. ii., p. 245.

Thus we see that wages go further in Great Britain than they do in any other European country, and probably as far as they do in the United States, while the hours of labour are shorter here than elsewhere. Still it may be that unemployment is less extensive and less frequent, and that the conditions of labour, in mining and other industries, is superior among certain other nations. Unfortunately, satisfactory evidence upon these points is not forthcoming.

Looking at British trade at the present time as a whole, while certain industries have undergone a change and some have become extinct, others, such as cotton and electrical engineering, have increased to an extraordinary degree. When the whole position is examined, we find that our workmen are comparatively well off, though much improvement in their lot is still desirable ; our country is very far from bankrupt, yet our prosperity is less than we could wish, and the sad evidences of periodic, and even chronic, unemployment are before our eyes. Whether or not a change in our fiscal system would assist in bettering our industrial conditions and in increasing the general welfare of the nation, is a subject worth careful consideration ; and we must here contemplate the suggested reforms both from the point of view of the prosperity of the people, and of the possibility of raising in this way part of the growing revenue needed for the government of the country.

A Protective Duty is one imposed on the importation of a commodity into this country, without a corresponding excise duty being levied on the same commodity when produced here. The result of such a tax is, of course, to give the home producers of the article taxed an advantage in competing with foreign producers in the home

market. A higher price or a more ready market, or both, is commanded, according to the amount of the duty.

The important question is in the nation's eyes :—" Would the advantage to the growers and manufacturers protected outweigh the disadvantage to the consumer of having to pay higher prices ? " In other words, " Would the improvement in those trades lead to more employment and better wages, and would that so beneficially affect the whole country that the rise in prices could be disregarded ? " For a *rise in prices* must be assumed as inevitable, if the tax is to be of any protective value. It is so in other countries with a far greater home supply, both of food and raw materials ; and in these islands, stimulate agriculture as we may, we must always be largely dependent on foreign or colonial supplies of food. That reminds us that we must here notice, in passing, a qualification of the protective policy, which consists in the proposal to give a " preference " to colonial produce by lowering in its favour the duties on imported goods.

It is often stated by advocates, who wish to exhibit all the attractiveness of a policy without assuming the burden of its unfavourable consequences, that the consumer does not pay the tax in these cases—that in fact *the foreigner pays it*, by reducing the price of his goods.* This, if it were true, would not be a very comforting reflection to the home producer who was hoping to secure protection from the foreigner through the tax. But, in reality, this has never been more than a taking catch-phrase for

* A favourite method of expressing that " the foreigner pays," is to define protective taxes as a toll levied for the privilege of access to the protected market. It must be evident that the foreigner, if he does pay, is only like our old friend, the cigar importer, who at once adds the tax to his retail price.

electioneering, though a pretty old one. In 1881, for example, Lord Randolph Churchill, referring to one of his campaign speeches, wrote, "Fair trade and taxing the foreigner went down like butter. How the latter is to be done, I don't know!"

For the purpose of this chapter we must conclude, therefore, that a tax on imported commodities will, in the long run, be added to the price in whole or in part. Only in a modified form can the foreigner be said to pay any of it. The ordinary *laws of supply and demand* would continue to regulate prices. Just that amount of a commodity which can be made to show an average rate of profit is at present produced here; if more could be produced to sell at a higher price, capital would naturally flow more and more in that direction until production had so increased that rates of profit in that line of business were again reduced to the normal level.

We see then that if the suggested duties are to have the effect of keeping out any considerable part of the goods of the foreigner, the British supply must be increased, and for the increased supply to be produced at a profit, prices must rise.

In some few instances, if the duties remain small, as the majority of Tariff Reformers appear to desire, the foreigner might pay some part of the duty. Any foreign firms which by special processes or natural aptitude are now able to produce more cheaply than the bulk of other foreign or British makers, and which now obtain a specially large rate of profit on the goods they send us, might still, under a protective tariff, be able to sell their products here at a profit; but such profit would then be reduced by the difference between the duty imposed and the amount by which the price of their particular product

was increased in our market. In such a case the burden of the duty would be divided to some extent between the foreign manufacturers and the home consumers.

Then, too, large surplus foreign stocks might be so offered that the whole of the duty would be paid by the producer, either in the hope of securing the particular market or when his surplus is unsaleable in his native country. Here the reformer, merely on the look-out for Revenue, might find some encouragement. This kind of offer would still continue, plus part of the duty, although obviously not to such an extent as it does at present when there is no duty to pay. Transactions of this nature have become a special object of remark in this controversy under the name of "Dumping;" and perhaps a few words of explanation may be useful as to this phenomenon of modern trade.

"**Dumping**" (by derivation, the act of shooting out the contents of a waggon in a heap) has come to mean, in commercial and political parlance, the placing of the surplus of any product of country A. upon the market in country B. at a price supposed to be less than that of the ordinary cost of production. This transaction is often said to be due to the facilities afforded in protected countries for disposing of the first part of the stock in the home market at such remunerative rates that the remainder can be "dumped" elsewhere at a heavy reduction, and yet a profit be made on the total output. Great Britain has been called the "dumping-ground," and even the "dust-heap" of the world, owing to the freedom with which such stocks can be placed on our market. It is of interest to notice that in the other branch of dumping—cutting down the price to secure the market—our own manufacturers are very active; and on the Continent, Great

Britain is herself known as "The Champion Dumper." We see the very same thing in domestic trade rivalry when a big "stores" enters into competition with smaller retail shops.

What are the effects upon a country of the kind of dumping from which we are said to suffer? It is clear that, if the article dumped is a *finished manufacture*, the retail trader and the consumer are benefited by the cheap supply available—the particular goods being sold at a much cheaper rate than obtains in their place of origin, or than that at which such goods are usually sold in our own market. But it is also obvious that the temporary derangement of the price is a bad thing for the home producer of the type of article dumped, and that his output and profits are temporarily diminished. We are thus brought back to the old question: whether the producer or the consumer has the greater claim. But it must be borne in mind that dumping of this kind is only an occasional feature of trade. The German or American manufacturer has not always these surplus goods to offer at such prices. His normal output will be that which will show the greatest profit in ordinary years, and he will not purposely create a surplus which he must sell at a loss, or at the risk of a very small profit, any more than a draper who has sold out his "job lines" can go on sacrificing fresh stock on the same terms. Dumping of finished articles is on a par with the sale of a large bankrupt or remainder stock, good for consumers at the time, bad for ordinary dealers at the moment, but, in both cases, having only a temporary effect. Whether this kind of dumping benefits or harms the nation as a whole is a most difficult question.

But when the commodity dumped is either a *raw material*, or *some partly manufactured article* which is used in certain of our own manufacturing processes, or is a machine or an implement of trade or agriculture, then, not only ordinary consumers, but some of our manufacturers and agriculturalists must be benefited. This advantage has at times been so great that, for example, by buying steel plates, the raw material of shipbuilding, at low prices from some other country, we have been enabled to compete successfully in the market of that country against the local shipbuilders for the completed ship made from those very plates.

A Protective Policy would certainly increase the amount of British commodities consumed in our own market, but special work will always surmount a "Tariff Wall," because the buyers in all countries will have it. For instance, there are some lines of woollen goods which are only produced in France, while in continental shops "English-made" clothes and other articles are highly priced. In the case of goods of which similar kinds are made both here and abroad, the market might be temporarily kept for home made goods at increased prices; but, unless the duty is periodically raised or made absolutely prohibitive, such market is bound to be invaded to some extent by goods coming in subject to the tariff; witness our own exports to the most highly protected countries, such as Russia. In an early stage of *industrial development* manufactures may certainly be fostered in this way, but that is not the problem to be faced in this country. Protection is being asked for industries already fully established, but no longer able to compete here in cheapness or in quality or in both with foreign competitors.

The contention of Free Traders is that such industries must wake up and improve, as the cycle trade has done,* or else must gradually pass away, as sugar-refining has passed; that we must concentrate our capital and our energies upon the production of such goods as we can produce better and more cheaply than any other nation; that, in this way, by exchanging products in which we excel for those which other peoples can produce more advantageously, we shall for the same labour obtain more and better goods of all kinds than if we devoted part of our energies to the production of articles in which we do not excel; *natural selection* should be allowed a free hand, and will gradually divert our productive energy into the fittest channels. Upon the other hand, it is contended by Tariff Reformers that we should endeavour to produce at home all that is needed for home consumption, and that, in order to foster production in lines where we are not superior to foreign producers, our home and colonial producers should be protected from outside competition.

What Articles should be Taxed.—Proposals for taxing imports, both as a means of revenue and of protecting trade, may be divided according to three different schools of thought. Some would only tax manufactured articles; more suggest taxes on both manufactures and foodstuffs, while many would also impose duties upon raw materials. The probable effect of taxes upon each of these possible classes of articles may now be considered separately.

* Between 1890–1896, British manufacturers could not produce a good, inexpensive type of bicycle. Large imports of cycles from America flooded our market, these machines being both cheap and sound. By diligence, economy and improved processes, British cycle manufacturers now produce the finest and cheapest cycles in the world, and in 1907 only £399 worth of cycles were imported from U.S.A., while Great Britain exported cycles to the value of over half a million.

Protective Taxes on Manufactured Goods.

Prosperity must be judged by the welfare of the nation as a whole, not by the wealth of a few capitalists nor even by the prosperity of certain classes or trades. It is possible for the total possessions of a nation to be very great while the lot of the many is very little removed from starvation. The mass of the people can only flourish when employed with regularity in healthy and remunerative callings. But at present, in every known industrial community, there are periods of unemployment for the workers which bring acute distress. It has been contended that every manufactured article produced abroad and sold here, which *might* have been produced in this country, is adding to our unemployment; and that, if all these goods were made here, there would be no unemployment in Great Britain. This is the largest claim ever made for Tariff Reform. Foreign workmen, it is argued, are pocketing the wages our own artisans and labourers might earn, and the remedy is a simple one, dependent on tariff adjustment. On the other hand, some Free Traders rather too complacently regard the total volume of the nation's trade, which is a poor consolation to the man out of work or precariously subsisting on half-time or very low wages. When Tariff Reform is advocated as a remedy for *unemployment*, it is admitted by the fairest of its advocates that it could only be a partial one.

It must not be forgotten that trade fluctuations, the conditions of the labour market, and the very requirements of some trades, render a certain amount of unemployment inevitable, as in the professional classes. Many a man was either never fitted, or for various reasons has become unfitted, for the work he tries to secure; and many again do not conscientiously pursue any regular

calling, but are content to be mere casual labourers. These are the first to feel the pinch of bad times ; and some are so far removed from the skilled or regular class of workman, as to be in the category of the unemployable. It is not for such a class that any alteration of the fiscal system can do any good. When we look at general unemployment, some test *can* be obtained by comparing the state of things in countries which have a protective tariff. We see that there, too, unemployment is at times very acute ; and that the condition of the unemployed, owing to the higher price of necessaries, is generally much worse than it is in Great Britain. In this little book, however, it would be beyond our province to deviate too far into the many economic questions which lie about this great subject. The question of cures for unemployment is one of those debatable matters which must be merely glanced at here.

Imports balance Exports.—But with regard to the argument of more employment being found through the exclusion of foreign goods or produce, it must be remembered that these imports must be paid for. They are not paid for in money or bullion ; for we possess no gold or silver mines, and, on an average, we import some three millions' worth of gold and silver more than we export in the year, and during the last decade this balance has become even greater. In fact, these imports are paid for by exports of goods and by *invisible exports*, *i.e.*, services, such as shipping, banking, and money-lending, rendered to foreign countries, or rather to individuals in foreign countries. Now the vast majority of our exports consists of goods most of which have given the maximum of employment in manufacture ; and coal of which about three-fourths of the whole value is attributable to the labour expended

upon it.* If we check imports we check exports, as without this method of exchange, our customers abroad could not pay us. If we manufacture goods formerly imported from abroad, we shall cease to manufacture those goods we used to send out by way of payment unless we take some other import in kind to pay for them.† The labour to be expended on goods in substitution for those kept out may at best only balance the labour no longer to be expended on goods which used to pay for those imported. There is hardly any subject to which the dictum of Burke is so applicable, that statesmen must have *long* views ; for there are so many seemingly attractive reforms in finance and trade, the merits of which vanish in the experience.

Fitness of Trades.—Then there is something to be said for the theory of the *fitness of trades*. It is contended by Free Traders that, under a system of free imports, those trades survive and flourish which are best suited to the country and the people. Perhaps, in these days of universal adaptability and absence of distinguishing genius,

* Eighty per cent. of our exports, and about twenty-three per cent. of our imports consist of goods wholly or partly manufactured. Of coal, we export infinitely more than we import. Thus in 1907 we imported 31,000 tons, but exported 85,188,000 tons.

† "The temporary payment for imports by an export of money is not unusual, and a persistent unfavourable exchange can be remedied only thus ; in such circumstances the export of gold or silver is the export of a convenient commodity (*e.g.*, gold-producing Australia). Over a long period (in non-gold-producing countries, *e.g.*, Great Britain) the purchase of imports by export of money is evidently impossible. Not to dwell on the fact that in a few years the whole metallic stock would disappear, the general range of prices in a country depends on the quantity of money in circulation. The export of money reduces its quantity and therefore lowers prices ; but lower prices check imports and encourage exports. A transient excess of imports or exports will be speedily corrected by a flow of money from or to the country where the disturbance exists."—Bastable: *Commerce of Nations*, p, 191.

this argument may not have so much force as it once possessed. But an attempt to foster an unsuitable trade, like time spent on training a boy for the wrong pursuit, results in money and energy being taken from the fit to be thrown away or to produce but middling returns by being expended upon the unfit. The higher price has to be paid for the inferior article, as no one who has once tried to light a French match will ever forget. Climatic conditions, at all events, need recognition. Adam Smith has reminded us that grapes could be grown in hothouses in Scotland and good wine made therefrom—but at thirty times the cost of French burgundy.

Competition a Stimulus.—Nor must we forget the effects of *foreign competition* in acting as a *stimulus* to our manufacturers and forcing them to keep abreast of all the latest methods of production. Not to go back to the Huguenots and the Flemings, hardly a year passes but we are indebted as a nation to the skill and inventive genius of foreign inventors and workmen. Every year we learn new processes from them and in our turn improve upon such processes. The effect of such a stimulus upon the cycle trade has already been mentioned. Motor-cars and boots are two other instances which must at once occur to everybody; roller skates being only a later example. The absence of such a stimulus often leads to national slovenliness. This, we have been told, by a writer we have quoted often,* is the reason why the United States, so rich in natural resources, still requires a prohibitory tariff against foreign manufactures, which she surely ought to produce better and more cheaply herself, and which

* Shadwell: *Industrial Efficiency*, Vol. I., pp. 25 and 248. Vol. II., p. 450.

accounts for the comparatively paltry amount of manufactured goods exported by that country.

If the effect of a tariff is only to change employment and not to increase it, *the wages* of the majority of the workmen employed, even in the trades protected, can scarcely be improved in the long run. For, except where special and highly trained skill is essential, wages are ruled by the conditions of the general labour market.

Practical Difficulties.—There remains the great difficulty in practice, if Tariff Reform is approved in theory: *the framing of the schedule*. What manufactures are to be on the list, and what are to come in free? What is the amount of the duty; is it to be fixed, as in the United States, or on a sliding scale, as in France; is it to be adjusted annually by Parliament? What are the arguments which will prevail in favour of, and against the inclusion or the alteration of taxes upon the various articles? Is any Parliamentary election to turn upon the promises of an individual candidate to advocate the claims of some chosen trade; and is the national welfare to be sunk in the interests of the local industry?

Every proposition for a tax begins with a small duty, of which the effect, it is said, will be lost on the consumer. But no trader is content to admit this as its goal; nor has such a step been found sufficient in other lands when tariffs have once been introduced. Pressure, political and commercial, has almost invariably forced the hands of governments, both for an upward and an extended tariff.* We see the movement even in Canada against the slight preference accorded to British manufactures. And a recent talented American critic of our constitution, who,

* For example, the proposals of the French Tariff Commission in 1909.

having studied us to such effect, may be presumed to know his own country, has written :—" However men may talk about a scientific tariff, the adjustment of the schedules in a legislative chamber involves in practice concessions among the various forms of industry, each of which urges its own claims to the utmost of its power."*

Great value must also attach to the opinion of one who was no party politician, writing at a time when this policy was not a matter of controversy, and who is now recognized as one of the most original thinkers of the middle of the nineteenth century. In his study of Pitt,† Bagehot, referring to the protective legislation of the latter part of the eighteenth century, wrote: "The first duty of the English Legislature, it was believed, was to develop English industry and to injure foreign industry. Our manufactures, it was thought, could be made better by Acts of Parliament; the manufactures of our rivals, it was believed, could be made worse. The industry of the nation worked in a complicated network of fetters and bonds."

In the contest for protection, the small and struggling industries, having little wealth and power, come off worst, although these are the industries which would seem to require most assistance. If a tariff were once set up there is little doubt that there would be a premium on lobbying and a great danger of corruption. And even when a tariff is framed, the most elaborate schedules cannot define everything; new and composite articles are always being manufactured which can be referred to different categories, with widely different results. Dispute, delay, troublesome litigation, and even bribery at the Custom House are inevitable.

* Lowell: *The Government of England*, Vol. ii., p. 517.

† "Biographical Studies,"

Protective Taxes on Food.

The general arguments for and against taxing foreign manufactures are applicable to food-taxes ; but there is a much greater difficulty in practice for those who advocate the taxation of food. Every Tariff Reformer feels that it is impossible to regard such a proposal without serious apprehensions when it is remembered that the cost of food will be increased. A third of the nation is already underfed, and any likelihood of making their food dearer must be contemplated by all with grave hesitation. Even in France, which in ordinary years imports but a very small percentage indeed of its corn supplies, the general cost of bread is considerably higher than in England. These considerations are felt by many who favour the taxation of manufactured articles, and they would therefore exclude all foodstuffs from the schedule. Rings, trusts and combines are feared as a possible result of protective duties on manufactures ; if it should become possible to " make a corner " in foodstuffs, the effect can only be viewed with dismay. But the home agriculturalist demands the same protection as the manufacturer, while on the imperial ground of a " preference," the taxation of food is necessary.

Preference means that trade between the Mother Country and the Colonies should be encouraged by allowing colonial produce to come into this country on paying lower duties than are demanded on similar produce from foreign countries. Thus a tax sufficient to protect the home producer against the colonial producer is required, and a higher tax against the foreign producer, so as to allow a preference to be accorded to the colonial producer. It has been anticipated by some ardent advocates that the policy of preference would lead to an agreed interchange

of our manufactured articles for colonial raw materials and agricultural produce. In the light of their strenuous protestations, the idea that in return for our greater willingness to take their foodstuffs, the colonials would only give a half-hearted attention to the development of manufacturing industries, can no longer be cherished. In Canada, Australia, and our other great colonies, they are as ambitious of their industrial future as they are loyal to the Empire.

It has been contended that without preferential treatment the colonies will drift apart or cease to value their attachment to the mother country. This consideration is, happily, not within the scope of our investigations into the Nation's Income. It is also contended that the preference would so encourage the growth of food supplies within the Empire that eventually the increased supply would reduce prices to their present level; but this is in the nature of a far off divine event for which the present self-denial is considered too great. Therefore another argument is put forward, viz., that it is wise, even at some initial sacrifice, to encourage food production within the Empire so that, in the event of a war with countries from which we now obtain our chief supplies, colonial foodstuffs may be available. Impressed as we may be by this motive, it must not be forgotten that our supplies from distant colonies are much more likely to be cut off than those from neighbouring countries. We might maintain a preponderating power at sea and yet our mercantile marine in distant quarters might be interfered with; while from European sources a supply might be safely ensured by concentrating our navy around our coasts. Looked at from the standpoint of this country alone, a safe and adequate supply from all markets is

required both in war and in peace. Our communications should therefore be free with all ports, so that if America be cut off, Russia may be open to supply our needs. From the point of view, therefore, of the Nation's welfare, apart from the interests of agriculture or the Colonies, taxes on foodstuffs are at present wisely discarded.

Protective Taxes on Raw Material.

Those who advocate the inclusion of raw materials in the list of articles to be subject to protective taxes escape some great difficulties. If the contention that our colonies must be bound to us by commercial preference be correct, clearly not only the Canadian corn-grower, but also the Canadian lumberman, must be propitiated; not only must those colonies which produce manufactures and foodstuffs be favoured, but preference must be given to the staple industries of all our colonies. If unequal treatment be accorded to them, some colonials would possess an undoubted grievance.

"Manufactured Article" and "Raw Material."—Another great difficulty which is avoided is the embarrassing distinction between manufactured articles and raw materials. Is the term "raw material" to apply only to natural products, or is it to denote all articles which are not in the final state in which they are put upon the retail market? Is an article to be regarded as "manufactured" only when it has arrived at such a stage that no further manufacturing process can convert it into a still more highly finished or composite product? The finished article of one manufacturer is very often the raw material of another. Steel-plates are manufactured articles to the manufacturer but raw material to the ship-builder.

A prevalent misconception is that a raw material is an article the value or cost of which is not due to any large extent to the labour expended upon it. Yet coal is always classed as a raw material ; and in twenty shilling-worth of coal, delivered at one's house, there is about five shilling-worth of coal and fifteen shilling-worth of labour. The vast bulk of finished manufactured articles cannot pretend to possess so large a proportionate labour value.

The obvious disadvantage of a tax on raw materials is that the price of the finished articles will be increased. Not only will the home consumer be burdened, as in the case of taxes on other commodities, but the manufacturer of the more finished goods will be hindered in competing in foreign markets. So clearly is this perceived, that the Tariff Commission on Agriculture proposed that agricultural machinery should not be subjected to protective taxes, while, from evidence before that body upon engineering, we learn that "a large quantity of iron comes from Sweden, and that cannot be dispensed with ; we have to face that."*

The effect of taxes on the raw materials of shipbuilding in the United States, although nearly all the necessary raw materials are produced in that country, is clearly seen from evidence given before the U.S.A. Maritime Commission. It was there reiterated† that American builders could not compete against those in Free Trade countries, and that the raw materials from which ships are constructed cost about forty per cent. more in America than they did in this country. The result is

* Evidence of Sir Andrew Noble. Reports of The Tariff Commission, Vol. iv., par. 513.

† *e.g.*, Evidence of Messrs. Lee and Orcutt.

that American shipping has dwindled into insignificance, while British shipping has steadily progressed.

Other Effects of a Tariff.

Revenue.—The very important question of the possibility of raising a large revenue from protective taxes must never be far from our view. But, if the protection afforded to home production be absolute, no foreign goods will come in and no revenue will accrue. While, conversely, if the amount of goods now entering this country would still be imported, there is no protection afforded. But let us suppose a half and half result to ensue. Some goods still come in, some are kept out. Under the present system the whole tax paid by the consumer, less the cost of collection, goes into the Exchequer. Under the suggested system, the whole tax upon imported goods would continue to enter the Exchequer. But, in regard to commodities manufactured in this country, the Exchequer would in no way benefit from the extra burden upon the consumer, consisting of the inevitable increase of the price. This burden upon the consumer would in such a case simply swell the profits of the home manufacturer and, to some degree, of his workmen. The people, as a whole, would have to pay far more in increased price than the amount which enters the Public Treasury. If a large revenue is raised by the State through protective duties, a still greater burden must be borne by the people at large. It should also be borne in mind that "broadening the basis of taxation" must inevitably lead to heavier charges for collection of the duties.

Retaliation.—It is said that a further advantage of the suggested system which cannot be obtained under Free

Trade is "freedom of negotiation" with other states for a mutual lowering of duties, and power to retaliate by raising our scale of duties against any nation which will not bargain with us, or which gives better terms to some of our trade rivals. The policy of hitting back naturally appeals to most men, although the history of tariff wars, indulged in by other nations, shows that the advantages eventually gained are almost always microscopical, compared with the loss of trade suffered by the countries engaging in such contests. Other powers with great "Tariff Revolvers" have not been able to obtain increasingly favourable terms from one another.* At the present time Great Britain has treaties with almost all civilised nations containing what is called *the most favoured nation clause*. This clause provides that neither nation shall charge the goods of the other at any higher rate than it charges the similar goods of any other country. Thanks to these treaties, if other nations indulge in a tariff war, such concessions as they do eventually wring from one another are to our benefit, for Great Britain automatically shares the spoil without suffering the evil effects of the combat. The adoption of a system of protection with a grant of preferential treatment to our self-governing colonies would, of course, entail a breach or a modification of all these treaties, and we should cease to obtain the benefits which we now derive from them. Nor must it be forgotten that there is at present nothing to prevent Parliament dealing out an even severer punishment than a mere raising of duties. If the facts were held to warrant such drastic action, Parliament could

* *e.g.*, Many American goods imported into France are charged at a far higher rate than English goods.

at once entirely prohibit any imports whatsoever from the country which was treating us unfairly.

The popularity of retaliation is to a great extent based on the erroneous belief that the prosperity of other countries must be a misfortune to our own. This is an old fallacy, due partly to false economics and partly to what is not the best in human nature.

Reciprocity.—One very successful instance of negotiation for a mutual lowering of Customs Duties was conducted by Cobden in 1860, between this country and France, by a manipulation of the tariffs of each country. This treaty, after conferring great mutual benefit, ceased to exist owing to the recent tendency of France towards a stricter protective system. In bargains even of this nature, the necessity of giving a preference to the Colonies would, however, tie our hands, for we should not be able to reduce duties below a point, because we should then no longer be according to our colonists the preferential treatment promised to them.

“Reciprocity” is always an end to be well kept in view, and, if in the inevitable taxes for revenue, some safe and impartial assistance could be rendered to home trade by treaty with foreign powers, we do not suppose there would be any outcry. We may see the day when aerial navigation has made all Customs barriers impossible—which would be a curious enforcement of “Universal Free Trade.”

Conflict of Interests.—If in the attempt to state some of the main features of this fiscal controversy, we have seemed to press hardly upon proposals for change, this must be not a little attributed to the fact that it is for the would-be reformer, like the plaintiff, to “make out his case.” It is hardly possible to state anything with certainty, except that there is a conflict of interests at

every turn between the consumer and the producer. This is appreciated by controversialists on both sides, and each therefore argues that the benefit of his proposals would, in the long run, be felt by the country at large. "The greatest good of the greatest number" is recognised as the final test. Each party attempts to show—or does not hesitate to assert—whether at first advocating the interest of consumer or producer—that its policy would be for the ultimate advantage of all. The Free Trader in his ecstatic moments is apt to ascribe to Free Trade all the blessings of modern civilisation. The bold Tariff Reformer pronounces Tariff Reform as the sure sign of higher wages, absence of unemployment, and universal prosperity. It is not with either of these assertions that the serious student of financial and political problems will rest content. Wearied by the controversy and tortured by their own efforts at "clear thinking," many who are not students of finance may take comfort in the reflection that "the measure of a Nation's greatness, of its worth under this sky to God and to men, is not the quantity of cotton it can spin, the quantity of bullion it has realised; but the quantity of heroisms it has achieved, of noble pieties and valiant wisdoms that were in it—that are still in it."* Yet our desire in these brief pages has been to show that honest investigation of the Nation's Income is connected with the highest interests and duties of citizenship; and, if possible, to render that investigation simpler, more attractive, and more complete.

* *Latter Day Pamphlets*, No. viii.

THE EXPENDITURE OF THE NATIONS ON ARMY AND NAVY.

Reference has been made on page 69 to the large proportion of our annual expenditure which is referable to war. The following authoritative utterance from a notable speech is of supreme interest :

“ The great countries of Europe are raising enormous revenues and something like one-half of them is being spent on naval and military preparations. You may call it national insurance, that is perfectly true ; but it is equally true that one-half of the national revenue of the great countries in Europe is being spent on what are, after all, preparations to kill each other. Surely the extent to which this expenditure has grown really becomes a satire and a reflection upon our civilization. Not in our generation, perhaps, but if it goes on at the rate at which it has recently increased, sooner or later, I believe, it will submerge that civilization. The burden already shows itself in national credit—less in our national credit than in the national credit of other nations—but sooner or later, if it goes on at this rate, it must lead to national bankruptcy.”

Rt. Hon. Sir EDWARD GREY (Foreign Secretary)

in the House of Commons, March 29th, 1909.

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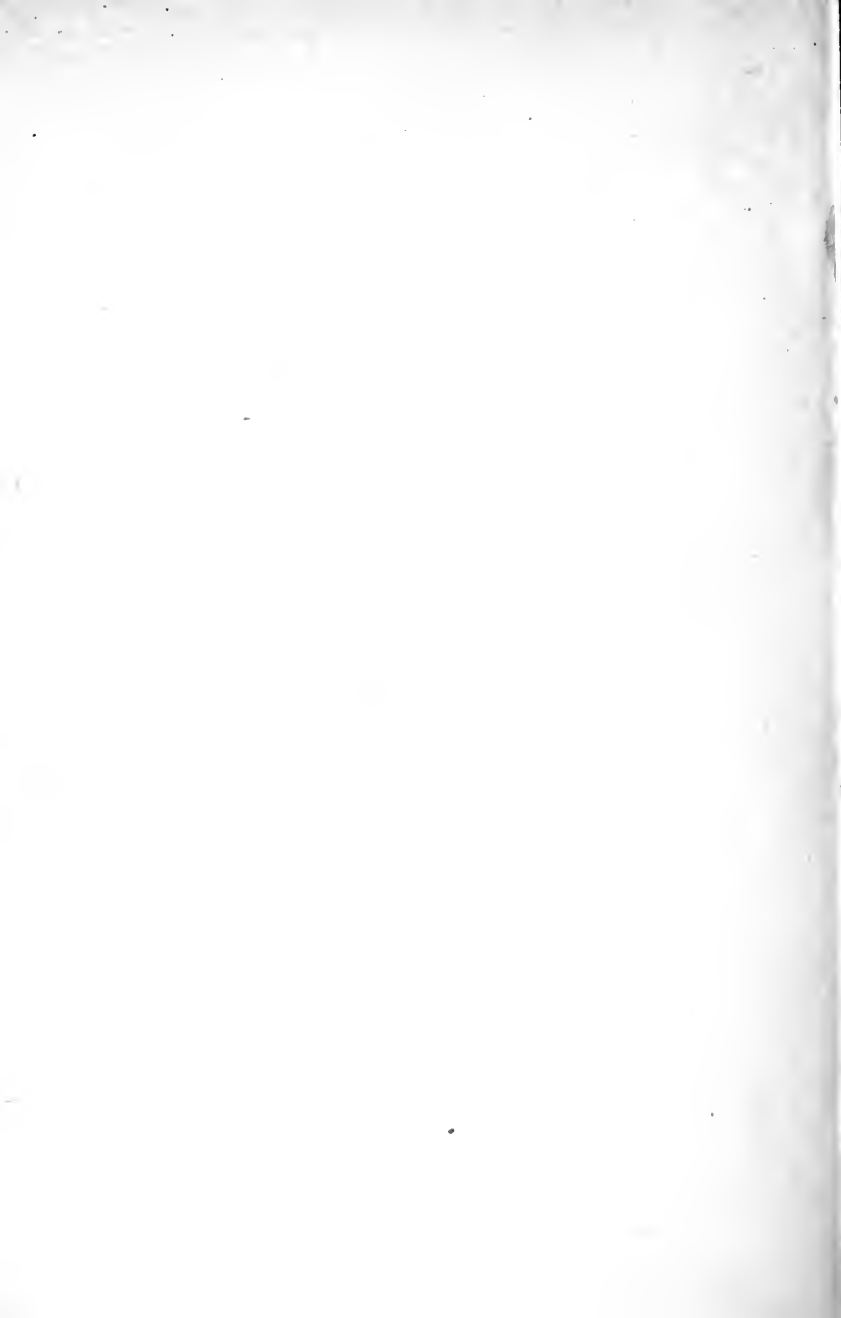
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